Green shoots for life risk advice

November 15, 2021

After five years of decline, advised life risk new sales in Australia are at last finding a firmer footing. The fundamentals remain robust and there is building evidence for clearer skies ahead.

Beyond turbulent

Insurers and reinsurers have both experienced large losses from advised life risk portfolios, particularly in the last five years. Shareholders are now rightfully more cautious.

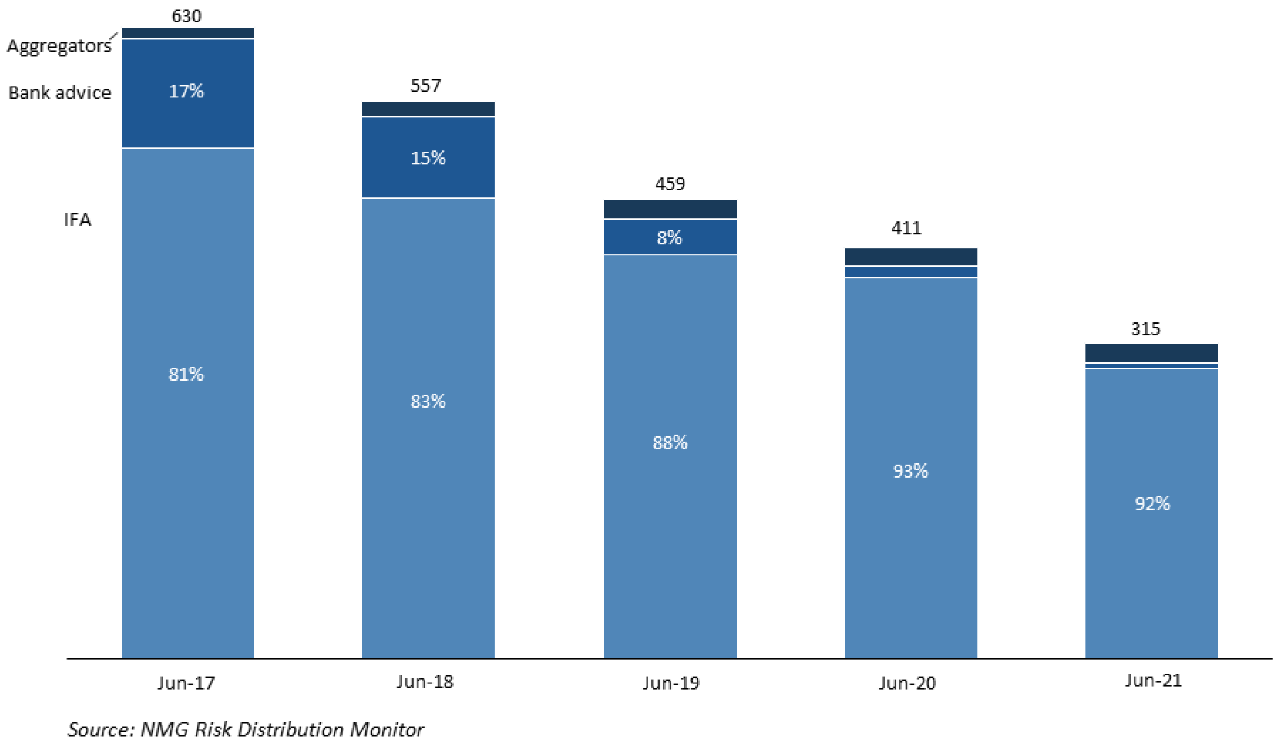
It has been a difficult time for advisers too, with higher regulatory requirements for advice, regulatory intervention on product offerings, and limits on commissions payable.

The result has been, unsurprisingly, a sharply declining market for life risk new sales. In fact, staggeringly so, with new sales for the financial year ending 30 June 2020 falling to 50% of their peak of 2017.

By extension, this means that consumers are also less well insured.

Exhibit 1: In rapid decline

Australian life risk sales (AUDm) by distribution channel (Financial year)



Down, but not out

Industry participants resilient enough to have survived this unprecedently challenging period might however feel they have some reasons to feel optimistic.

1. Coverage levels remain well below Australian community expectations

Life insurance is best thought of as a 'community good'; that is, one purchases it in the hope one never needs to use it, and in the case that hope is dashed, its benefits (in most cases) go to others. So, life insurance benefits go to the community as opposed to the acquirer, being quite different to the typical profile of a consumer good.

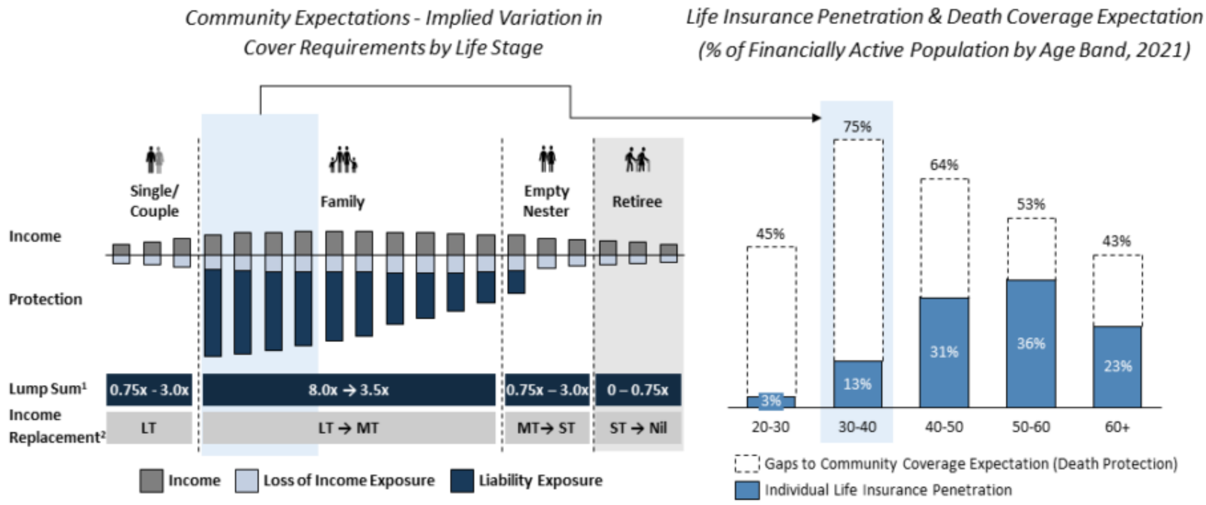
The standard for life insurance sought by the community is for it to act as a safety net to help families avoid hardship in the face of adverse events (such as death and disability), focused on the family and the family house, supporting a re-structuring of affairs to allow ongoing engagement with the community.

While this standard is largely consistent across demographics, the implication is that the level of community protection for Australians is based on age and life stage. Currently, expectations are not being equally met at each life stage, and declining new life risk sales means these gaps are set to widen.

The gap between actual coverage levels and reasonable community expectations remains an opportunity for the advisory industry. New, more efficient, advice models are required, but also more efficient processes for new business acquisition. Lightened regulatory settings would be a welcome boost too.

Exhibit 2: Expectations and reality

Those under 40 (typically young families with a mortgage) have the greatest exposure to liabilities and loss of income, and are the least well insured



[1]Lump sum benefits reflect the amount of Death & TPD protection illustrated as a multiple of primary earner income
[2]Income replacement benefit terms include long-term (LT), mid-term (MT), and short-term (ST)

Source: NMG Community Expectations Study, NMG RDM Study, ABS Data, NMG Estimates

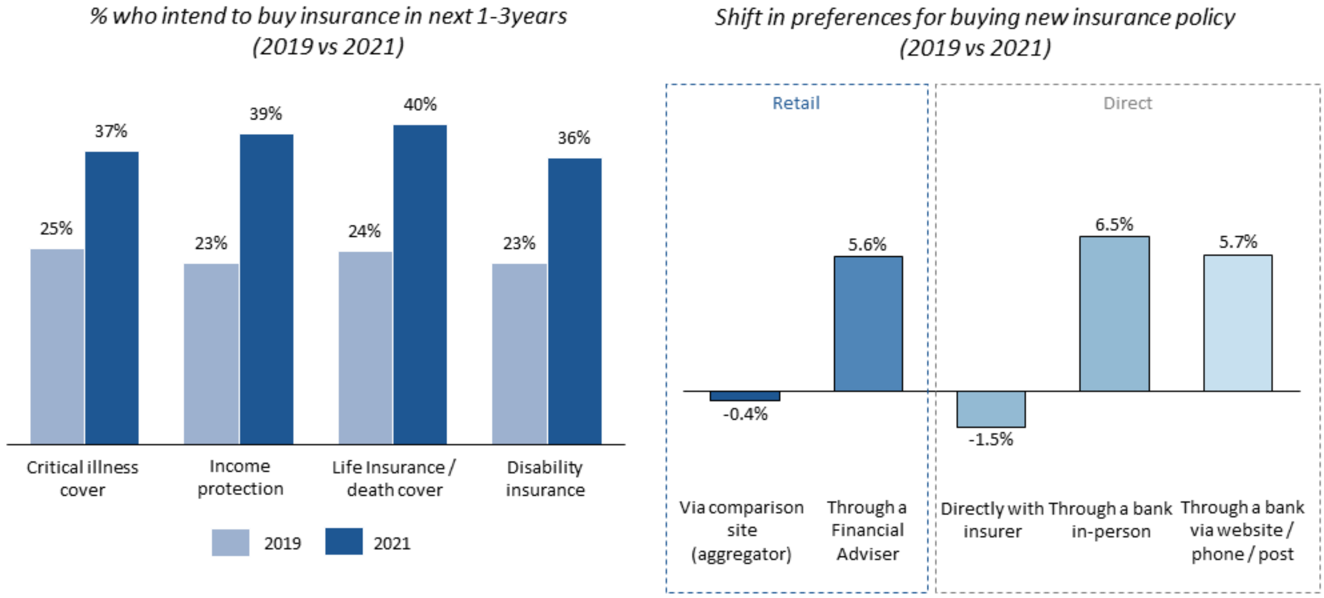
2. Heightened risk awareness

Australians have high levels of risk awareness generally. Over the past 24 months in particular:

- **New highwater marks for risk awareness** are visible as rising intentions to purchase. Covid-19 has had this effect globally (making it easier to 'sell risk' in all its guises), but consumers are also increasingly more astute
- **Preferences for an advised purchase** have lifted sharply, with Australians valuing the capabilities on offer from advisers to help make the most informed purchase decisions

Exhibit 3: More life, more human

Consumer stated life risk purchase preferences – October 2021



Source: NMG Community Expectations Study

This should be a welcome relief to the ~7,000 active risk advisers, particularly those who are able to mobilise a new approaches to address these needs which are currently unmet.

3. Digital initiatives to bring benefits to advice channels

Part of the success of direct insurers has been their accelerated adoption of data-driven, digitally-enabled acquisition and business models.

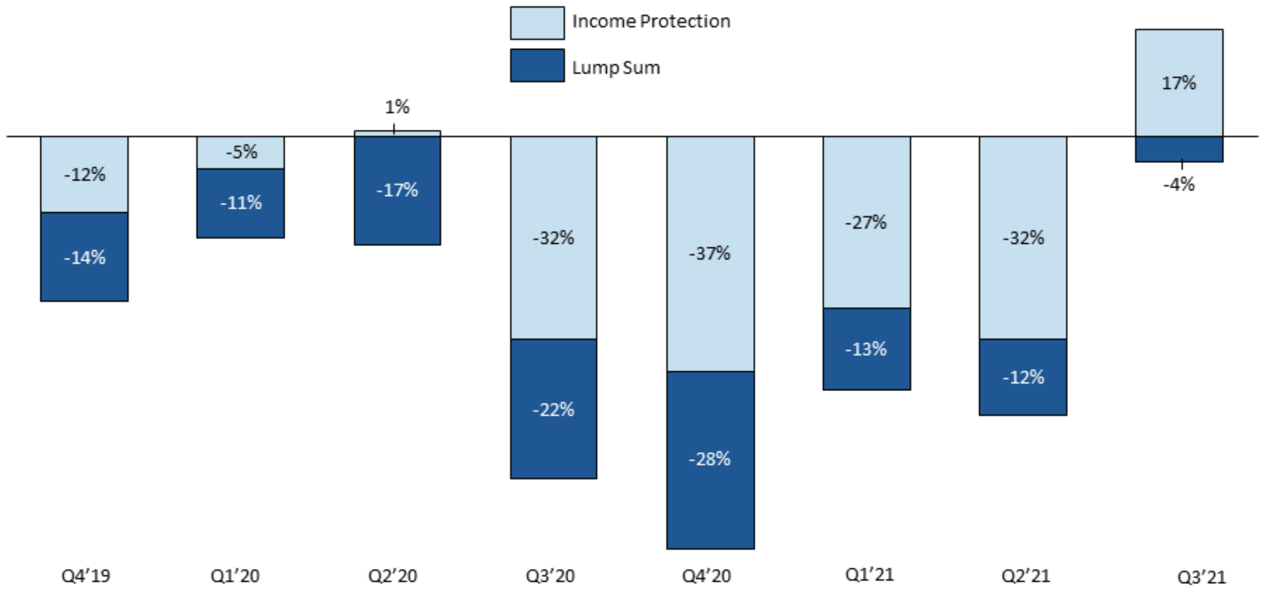
Advice channels have yet to receive the full benefits of a digitally-enabled value chain, and the productivity gains that will follow (such as lead generation and more streamlined risk acceptance).

4. Proof of life

While in part driven by accelerated purchasing of disability income covers ahead of the regulatory deadline (before which only new more conservative designs can be sold), for the first time in the last eight quarters there has been growth in sales for the quarter (Q3 2021, 13%) on a year-on-year basis (ie compared to Q3 2020).

Exhibit 4: Ultimately uplifting

Changes in annualised new sales for the quarter, on a year-on-year basis. 17% uplift in Income Protection sales. Lump sum sales almost fully tapered



Source: NMG Risk Distribution Monitor

Finally, firm footing

The decline in Lump Sum new sales (which make up nearly 70% of total new sales) seems to be almost fully tapered, suggesting that sales are finally at an inflection point. Income Protection new sales will continue to be more volatile and thus harder to anticipate, and will likely fall immediately after the period of accelerated processing comes to an end.

Is it too soon to make the call that advised new life risk sales are about to embark on a meaningful recovery? Probably.

That said, one could confidently claim that firm ground has now been found, and that there are upside scenarios boosted by higher risk awareness and favourable tailwinds in terms of customer preferences. In other words, evidence for long-awaited 'green shoots'.

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