Deloitte.

Mind the gap:
How to provide the Australian community with the life insurance it needs

August 2023

Contents

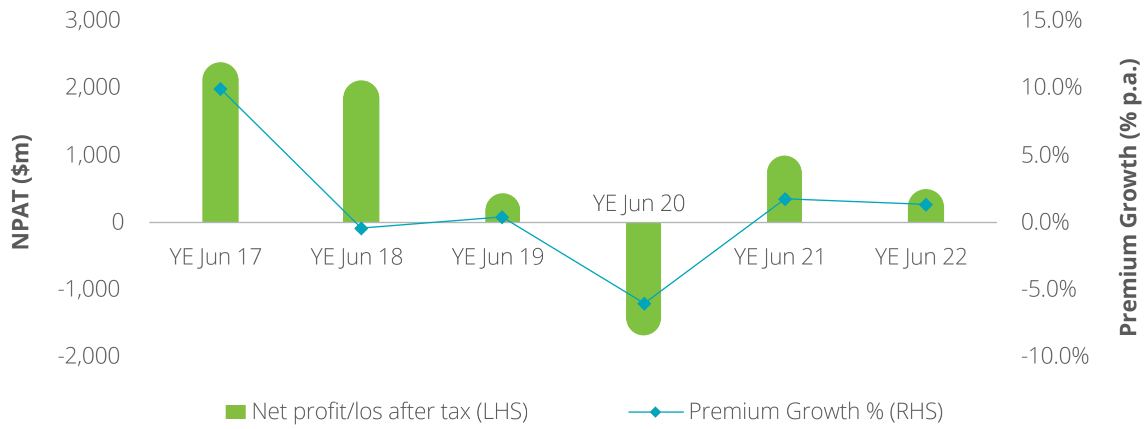
Executive summary

We have estimated that Australian families could have claimed $25b more for life insurance events last year were it not for underinsurance. The Australian life insurance industry could grow to more than three times its current size by addressing the under-served and underinsured segments of the market, such as the middle-income segment. Life insurers have the opportunity to reach and better serve this middle market through innovation in product, channel, network and engagement. Success will be achieved when insurers take a system-wide view and place the social good agenda alongside their own growth ambitions.

1. An industry struggling to find growth

Over the past few years, the Australian life insurance risk[1] industry has not managed to achieve growth in both nominal and real terms and profits have been impacted by unexpectedly higher claim costs, leading to both top- and bottom-line challenges for the industry, as can be seen in Figure 1.1.

Figure 1.1: Profit and Nominal Premium Growth



Source: APRA Quarterly Statistics, Deloitte analysis

All four existing channels have been in decline:

Figure 1.2: Channel Contraction

Group insurance

Group insurance has shrunk due to structural changes including PYS and PMIF, introduced to mitigate against concerns that duplicate and unnecessary insurance was consuming too much of members' superannuation balances and contributions.

Retail advised

Retail advised has been impacted as far fewer advisers are serving the market than historically (from **28k** financial advisers in 2019 to **16k** in 2022, with only around 1k now focussing primarily on life insurance[2]) with increased compliance burdens leading to early retirement and exits from the industry of financial advisers.

Direct

Direct has been impacted by the Royal Commission and ASIC reviews into Direct insurance, leading to exits or slow-downs in this space.

Bancassurance

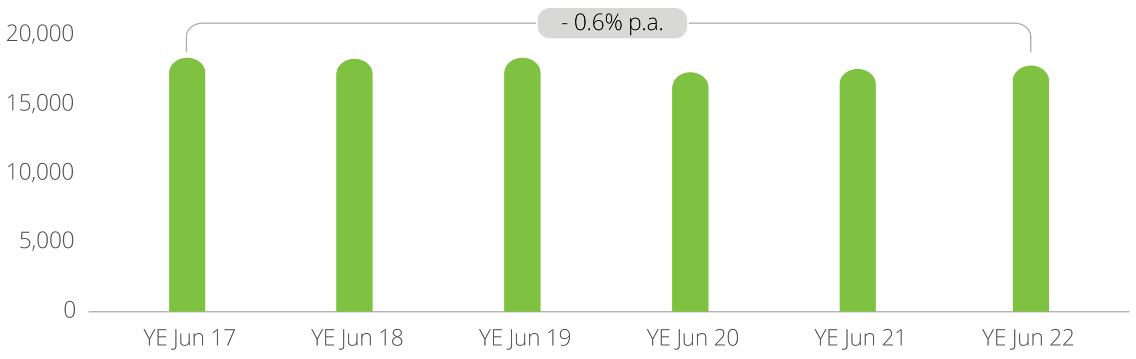
Bancassurance no longer exists in the historical form of banks selling their own products to their customers, either directly or through bank aligned advisers. The banks have all sold their life insurance entities and activation of partnerships with life insurers is proceeding slowly.

1 Unless otherwise stated, all figures and references to life insurance in this paper are to life risk insurance and exclude investment products historically sold by Australian life insurers, as the Australian life insurance industry is currently mostly protection focussed

2 Adviser Ratings 2023 Life Insurance Study

Between June 2017 and June 2022, the total market measured by annual life insurance gross premiums shrunk by 3.2% (or 0.6% p.a.). Given inflation was 2.6% p.a. over the same period, this is a reduction in the market in real terms. This illustrates the ongoing challenge for insurers to find growth in the Australian life insurance market. Whilst it is encouraging to see that the tide has stemmed over the last 2-3 years, it is a stabilisation rather than meaningful growth.

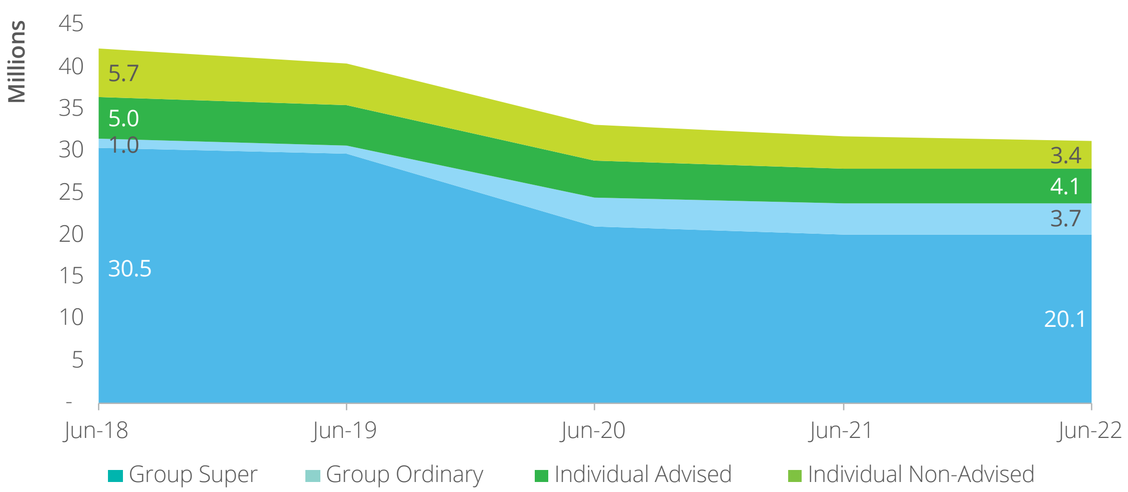
Figure 1.3: Total Life Insurance Direct Premiums ($m)



Source: APRA Quarterly Statistics, Deloitte analysis

Given the extent of premium rate increases over the period in question, it is useful to consider a measure that excludes premium rate as well as CPI increases. Looking at the number of lives insured over a similar period[3] shows an even starker decline, of around 26% in lives insured over the 4 years to June 2022. The decline can be observed across all channels, with Group Super being the most substantial contributor due to the structural changes noted above.

Figure 1.4: No. of Lives Insured – By Distribution Channel



Source: APRA Claims and Disputes Statistics, Deloitte analysis

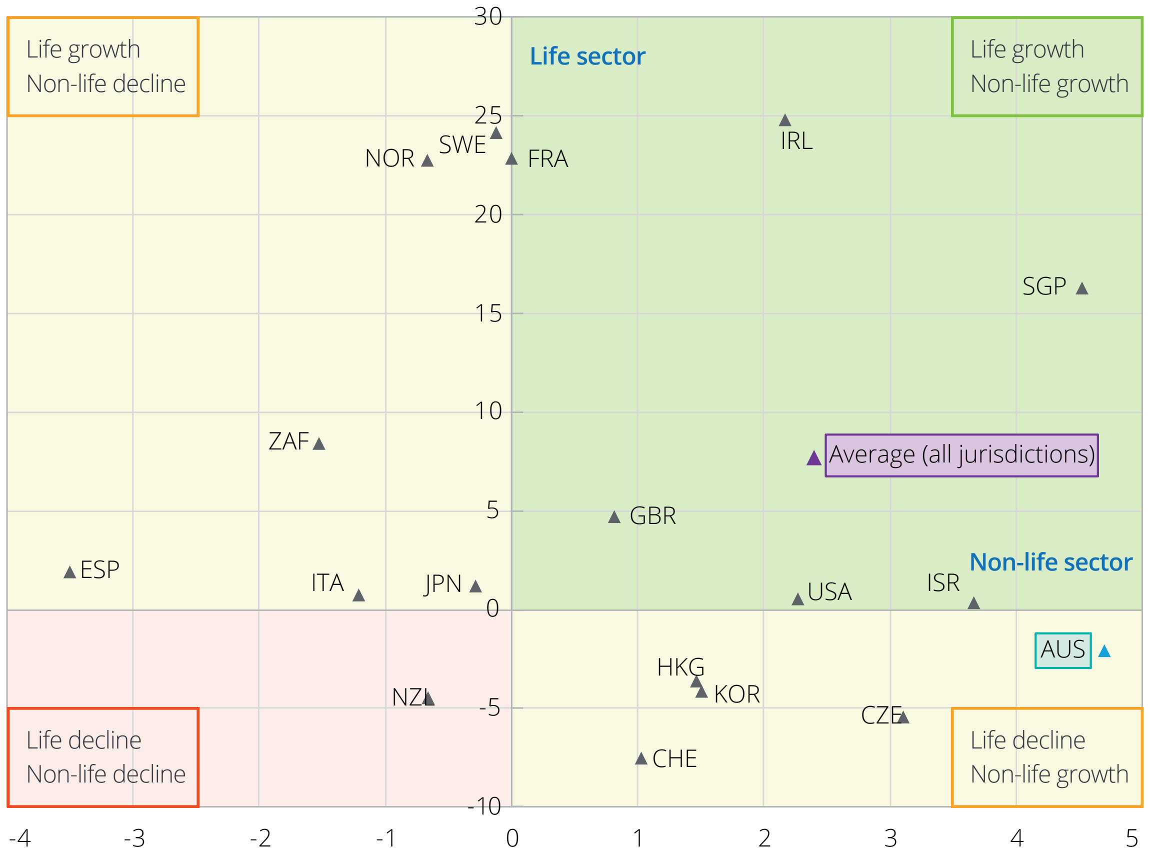
3 There are more lives insured than unique lives covered, due to some policyholders holding multiple policies/coverages, possibly straddling more than one channel

2. How does this compare globally and to non-life insurance?

In Figure 2.1 we show the annual real growth rates of gross premiums in the life and non-life sectors in selected jurisdictions, over the calendar year 2021[4]. Among the 52 reporting jurisdictions[5] in the 2022 OECD Global Insurance Market Trends study, life insurance gross premiums increased by 7.7% in real terms on average, whilst in the non-life sector this increase was more moderate in real terms, at 2.5% on average.

There were naturally outliers, but if we look at a select few jurisdictions (mostly a sample of developed European, Asia Pacific and North American countries, plus South Africa which is a typically innovative insurance market), it can be observed that the Australian life sector did not fare well in 2021 with a 1.9% real decline, compared to an average of 5.6% growth amongst these selected jurisdictions (and 7.7% across all jurisdictions). In addition, it is stark to see how Australian growth has outperformed in the non-life sector in 2021 (4.6% growth), both against other jurisdictions' non-life growth (average of 0.9% for the selected jurisdictions and 2.5% for all jurisdictions) as well as notably against its local life insurance counterpart.

Figure 2.1: Annual Real Growth Rate of Gross Premiums – Life vs Non-Life Sectors (%)



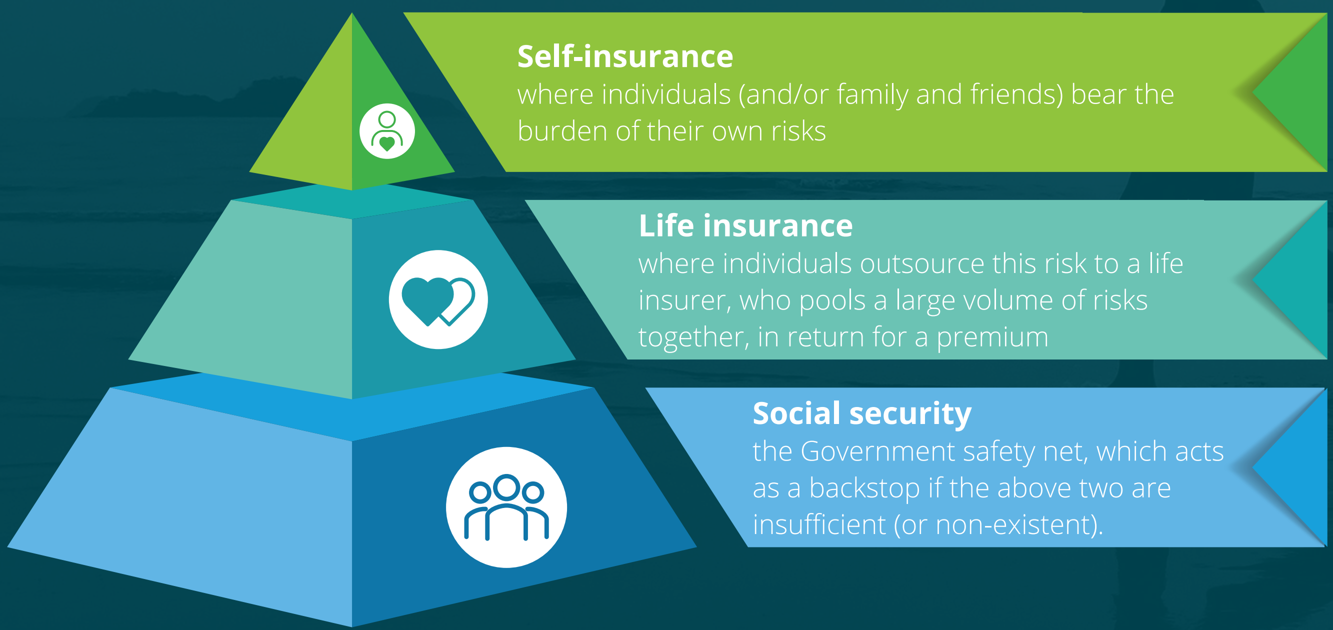
Source: OECD Global Insurance Market Trends 2022, Deloitte analysis

4 Noting however that an individual year may present with volatility
5 Note that in many other markets, life insurance is a combination of savings products as well as protection products. This is unlike Australia which is mostly protection focussed, and hence whilst the comparisons are relevant at a total industry level the differing product sets do need to be considered

3. What is the cost of underinsurance?

The life insurance market needs to grow to ensure Australians are protected when the worst happens. An individual can protect themselves against life risk in three ways (or a combination thereof):

Figure 3.1: Three Pillars of Life Insurance Protection



Given the difficulty in properly understanding and quantifying personal risk for life events that are low probability but high consequence, and the limited safety net provided by the Government, life insurance is a critical pillar in protecting Australians for life risk events.

The OECD notes that the insurance industry is a major component of any economy, not only by virtue of the amount of premiums it collects and the scale of its investment, but more fundamentally through the essential social and economic role it plays by covering personal and business risks.

Despite the broader reach provided by insurance in superannuation, Australia has lower levels of insurance than several comparable OECD economies. Australia's ratio of life insurance premium volume to GDP is 1.5%, which is lower than the OECD average as well as several comparable economies including the United States, the United Kingdom, and Canada.[6] The current cost of living crisis, whereby individuals are cutting back on living costs and perceived non-essential spend, may exacerbate this position.

This presents a compelling opportunity for life insurers to fill this social need, as the Australian public is up to 60-80% underinsured[7].

According to our latest research, this percentage has increased even further since 2020, and hence it is a growing problem which needs solving at both a macro government and private sector level. Government is incentivised to find a solution, as the estimated cost to the Australian Government of underinsurance is $1.5b per annum in additional Death, TPD and IP social security costs alone (i.e. excluding indirect costs).

We furthermore estimate that the Australian public could have claimed up to $25b more last year if not for underinsurance[8]. This is $25b that Australian families would have had to find to cover the implications of a mortality/morbidity event, that would otherwise have been paid for by an insurer. It is the equivalent of around 220,000 average sized claims/claim events that individuals had to fund themselves.

At its heart, life insurance is a social good. To achieve the desired social outcomes, the market needs to protect more of these uninsured and underinsured individuals.

6 Deloitte-ASFA report on "The future of insurance through superannuation"
7 Deloitte Underinsurance in Australia Report 2020 (published previously under Rice Warner)
8 This only considers claim payments that would have been made, and doesn't consider the offset of additional premiums that would need to have been paid for the cover

4. Why does the industry need to grow?

Turning to life industry themes, the market has shrunk in real terms (and even in absolute terms depending on the period considered). Some issues to consider are listed in Figure 4.1.

Figure 4.1: Considerations Regarding Lack of Life Insurance Growth

This is an especially poor result relative to other financial services sectors such as retail mortgage lending and general insurance which have all grown considerably more, at around 5% p.a., over the past few years.

While multiple life insurance acquisitions over the period enabled certain players to grow, overall this is just shifting slices between players, rather than growing the overall pie. The challenge remains around how to grow the overall market.

In addition, the life insurance industry is struggling with poor and volatile profitability, making capital hard to attract. Some insurers may not be achieving sufficient ROI to motivate investors to put more capital into the industry.

Life insurance is an industry that has always been very capital intensive – this includes regulatory and internal capital requirements, but more recently life insurers have needed to spend more capital to accommodate new systems, regulatory and accounting changes, as well as M&A activity and subsequent integration. To achieve a sufficient return on this capital and expenditure, and thus ensure a viable and sustainable industry, an entity needs to achieve scale and spread this cost across a large base of operations.

There are ongoing growth challenges for life insurance companies, noting that some insurers have addressed these (for now) through acquisitions. Other insurers may be able to wrestle market share from competitors (especially in the Group space, where with Super Fund consolidation, scheme tender opportunities are becoming larger). However, growth at the expense of other participants is not going to help the industry become sustainable. So there needs to be consideration around a system solution – how life insurers can ensure better community outcomes through a growth in the system overall.

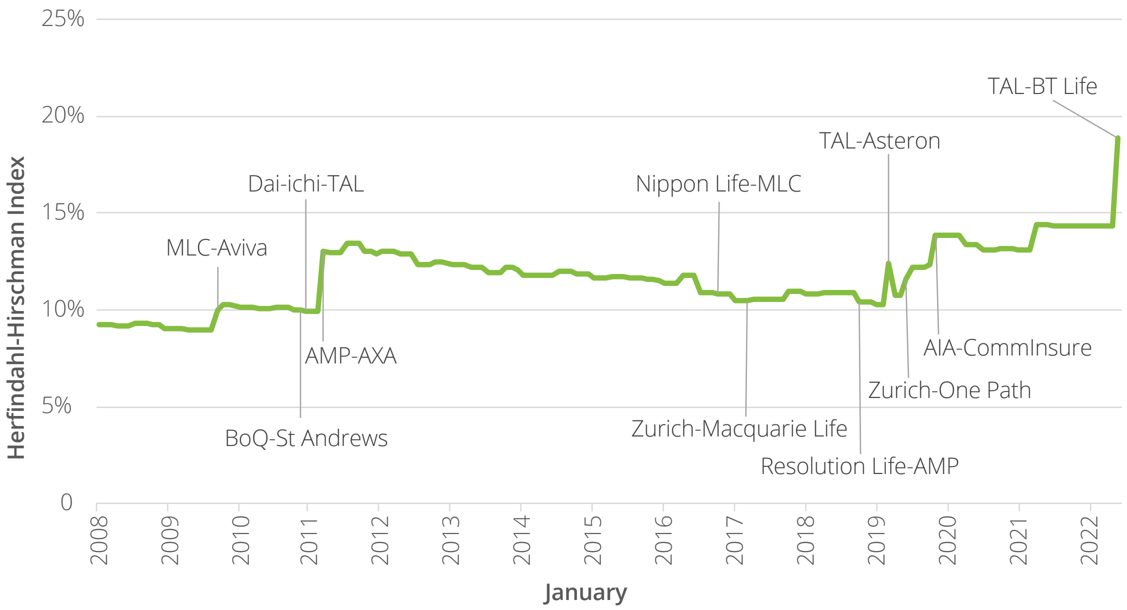
5. How competitive is the market?

Before we assess how individual insurers (and the market) can achieve growth, it is worth reflecting on the competitive state of the market. In a reasonably competitive market that is not growing, the only way for a company to achieve growth is by acquiring market share from competitors either by outcompeting them or acquiring them. The last 5-10 years has seen significant merger and acquisition activity, consolidating the market into around a dozen direct insurance groups, only a handful of which are still writing meaningful volumes of new business.

Figure 5.1: Key Reasons for Life Insurance Consolidation

The Herfindahl–Hirschman Index ("HHI") is a measure of market concentration used to determine how competitive a market is. The lower the score, the more competitive the market. An index value of less than 1% is considered a highly competitive marketplace; 1-15% is considered a competitive marketplace; 15-25% is moderately concentrated; and 25% or greater is highly concentrated. Figure 5.2 shows the index for the Australian life insurance market from 2008 to 2022, based on net policy revenue.

Figure 5.2: Trend of Competition in the Life Insurance Industry



Source: APRA Quarterly Statistics, Deloitte analysis

Fifteen years ago, with around 20 distinct insurance companies in the market, the index for the Australian life insurance market was sitting around 10%, indicating an unconcentrated and competitive market. The extent of consolidation over the last 5 or so years has increased this value to 17.5%, which is now considered to be a moderately concentrated market.

It is worth noting that although the market is more concentrated than before, it is likely no-one has much pricing power, in particular in the Individual market. This, together with the poor profitability noted earlier, suggests that customers are not being overcharged.

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The relative concentrations of the Group versus Individual markets can be observed in the market share Figures 5.3 and 5.4 below. The HHI for Retail as at June 2022[9] sits around 17%, in stark contrast to Group which has an HHI of 25% and is starting to become highly concentrated. As the overall market is not yet considered to be highly concentrated, for the reasons noted earlier there may be further (subject to ACCC constraints) M&A transactions, especially focussing on Individual life portfolios/insurers.

Figure 5.3: Group Risk IFAP% by Insurer

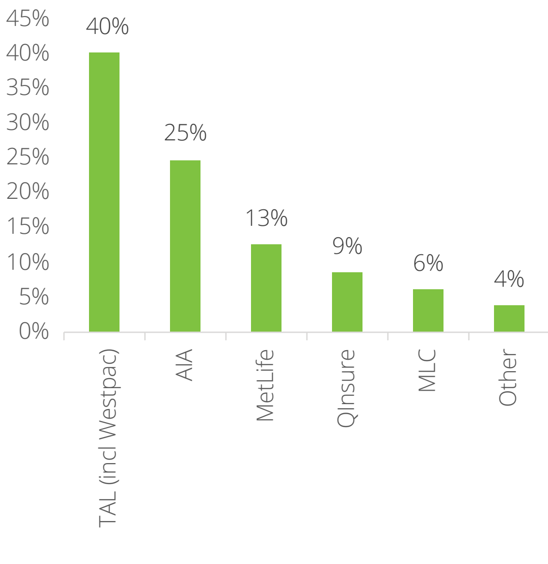
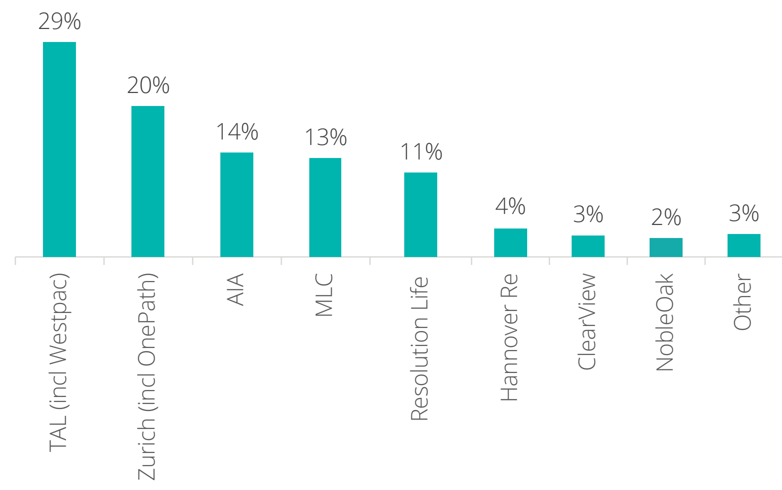


Figure 5.4: Individual Risk IFAP% by Insurer



Source: APRA Claims and Disputes Statistics (June 2022), Deloitte analysis

With 7 major life insurance transactions over the past 6 years (Macquarie Life, MLC, Suncorp Life, OnePath, AMP Life, CommInsure, Westpac Life), this provided opportunities for growth. Most domestic owners exited, and foreign owned insurers took the opportunity to either enter the market or increase their market share. Those who successfully rode the wave have ended up with greater scale. But as the inorganic opportunities are now more limited, executives are turning their minds towards how to achieve organic growth, thus driving market growth.

9 Despite calculating the HHI as at June 2022, we have allowed for the known transaction of Westpac Life to TAL that completed in August 2022

6. What is the size of the unmet opportunity?

As noted earlier, to achieve sustainable growth aligned with community outcomes, we believe the industry needs to focus on consumer needs and how best to address these to grow the addressable market. Whilst group insurance through Super has led to a high proportion of Australian non-dependent working age people with some life insurance (77% with Death cover, 52% with TPD cover, and 30% with IP cover[10]), there is a significant cohort of underinsured Australians in the market, and there are engagement challenges around increasing voluntary cover to close that gap. This is an addition to those without insurance at all (i.e. uninsured).

More pertinently, according to our research, in 2020, Australians collectively only held insurance covering 42% of Death needs (at the level required for "income replacement"), 18% of TPD needs, and 34% of IP needs, as observed in Figure 6.1. And as noted earlier, this gap has increased since. This highlights the large uninsurance gap that needs to be filled. We estimate that the life insurance market could grow by up to $40b in additional annual premium (i.e. to more than three times its current size of c $18b) if the underinsurance problem were fully met (at "income replacement level"), and noting that this doesn't even include Trauma[11]. Deloitte's underinsurance analysis is shown in Figure 6.1:

10 Deloitte Underinsurance in Australia Report 2020 (previously Rice Warner)

11 Note: This analysis excludes Trauma underinsurance. Deloitte (previously Rice Warner) noted in its report that "the amount of Trauma cover required is subjective and considered to be elective rather than essential. Trauma benefits make recovery from an illness more comfortable, but they do not generally close the underinsurance gap."

Figure 6.1: Underinsurance by Benefit Type ($ billion)

	Death cover			TPD cover			IP cover p.a.
	Partial level*	Basic level*	Income replacement level*	Partial level*	Basic level*	Income replacement level*	
Insurance need	2,572	3,617	7,925	2,995	7,605	12,401	833
Current level of insurance	3,343	3,343	3,343	2,227	2,227	2,227	281
Underinsurance	-771	274	4,582	768	5,378	10,174	552
Current insurance as a percentage of need (%)	**130%**	**92%**	**42%**	**74%**	**29%**	**18%**	**34%**

* ***Partial level:*** *covers debts and funeral expenses only*
Basic level: *covers debts and funeral expenses, plus child/dependant costs*
Income replacement level: *aimed at fully replacing the insured's income*

Source: Deloitte Underinsurance in Australia Report 2020 (previously Rice Warner)

The broad umbrella of "underinsurance" captures three distinct issues:

Figure 6.2: Types of "underinsurance"

Uninsured
A portion of the market is not insured at all. Do incumbents have the channels and product propositions to reach those with no insurance?

Underinsured
For those with insurance, the levels of cover held may not be sufficient. How do incumbents provide the right levels of cover to fully meet insured needs?

Incorrectly insured
For those with insurance, they may not have the correct products or structures in place.

How could incumbents address this through cover that is holistically fit for purpose, and benefits tailored to reduce gaps as well as overlaps (e.g. workers compensation and TPD)?

The overarching challenge for insurers is "to put the right products into the hands of the right people at the right time".

7. How to achieve market growth?

Life insurers need to consider the barriers to innovation, and why general insurers have been moving faster than life insurers within the innovation space. In recent times, the pace of innovation in life insurance has been slow. The emphasis on innovation has largely centred around individual products, including simplified life insurance, incentivising healthy habits for risk management, and digital distribution. While income protection saw increased attention leading up to and during the pandemic, it has now taken a back seat, and there is a lack of employer and group-focused solutions for aging and retirement.

We've used our Deloitte Doblin's 10 types of innovation framework to identify the levers to pursue targeted innovation and differentiate offerings. The Deloitte Doblin 10 types of innovation model is a framework which identifies ten distinct types of innovation that businesses can leverage to create and capture value.

This framework provides a structured approach to generating new value pools across the business value chain. The innovation opportunities are divided into three categories:

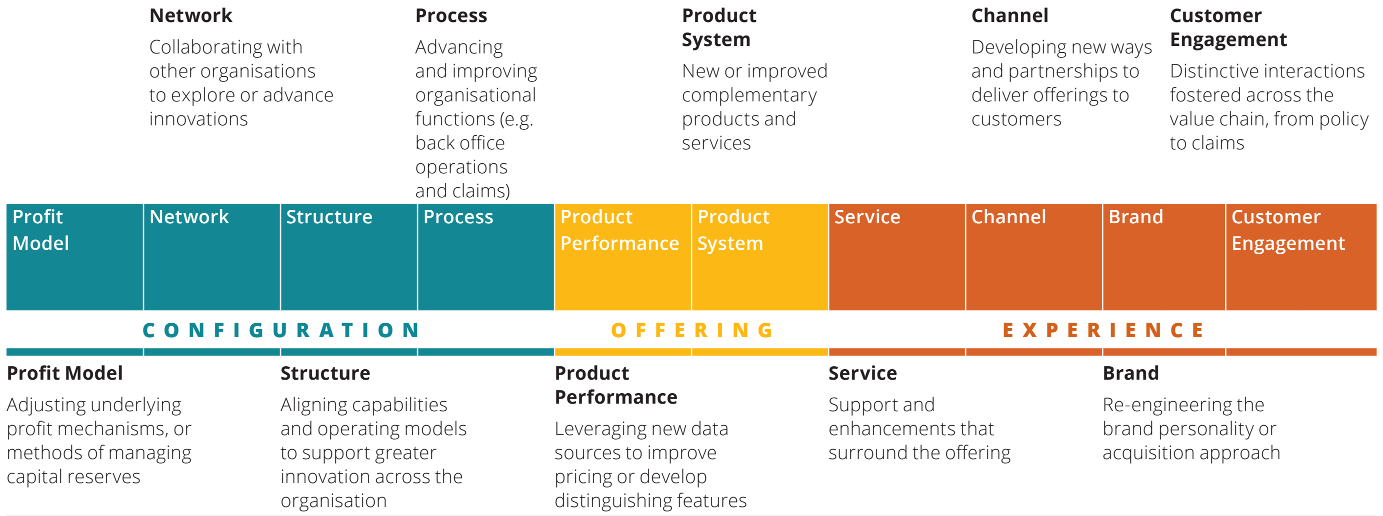
1	2	3
Configuration Innovation	**Offering Innovation**	**Experience Innovation**
Refers to changes made to the way a company is organised, structured, or managed.	Relates to the creation of new or improved products, services, or customer experiences to unlock additive value.	Relates to the various ways a company engages with its customers and stakeholders.

Each of the ten types of innovation falls under one of these categories and is a specific way a company can innovate. For example, Zara undertook "process innovation" to bring its "fast fashion" strategy to life that moves its clothing from sketch to shelf in record time, significantly redefining the fast fashion sector. Another type is "network innovation" which involves changing the company's relationships with suppliers, partners, or customers to access or generate new value.

By understanding the different types of innovation and where they fit within the three categories, companies can develop a comprehensive innovation strategy that enables them to stay ahead of their competitors, meet customer needs, and generate new growth opportunities.

The Doblin framework is summarised below:

Figure 7.1: Deloitte Doblin Innovation Framework



Source: Monitor Deloitte

The 5 most important factors

We have identified five factors of the Doblin innovation framework as being the highest leverage areas for stimulating growth in the life insurance industry. Whilst we have mostly focussed on growth in life insurers' core business, the framework can equally be applied to expand into other offerings altogether (e.g. other types of insurance, more broader financial services, or even further diversified outside of financial services).

1 Network

By forging robust network partnerships, life insurers can open access to new customers and boost market share while strengthening existing customer relations. Network partnerships would enable life insurers' access to valuable customer data (such as debt, work history and life events), and new channels.

By participating in the right networks, insurers can broaden their scope to create holistic financial services offerings and establish themselves as trusted partners throughout consumers' lives, meeting customers where they are. This will deliver integrated tailored solutions that address multiple moments that matter across a customer's journey.

For instance, Standard Chartered Bank and Allianz's 15-year strategic bancassurance alliance in Asia is a prime example of how such partnerships can benefit both parties. Allianz's general insurance products are distributed through Standard Chartered's banking channels, allowing Standard Chartered's retail banking clients access to a comprehensive range of insurance solutions, thereby strengthening both of their positions in the region.

Another example of network-based innovation to fuel growth is Foresters Financial, a benefit society offering life insurance in Canada, the US and the UK. They have partnered with Swiss-based Insuretech company dacadoo, that supplies health-tech solutions to a wide ecosystem of partners. Through the partnership, dacadoo uses data provided by wearable technology and behavioural science to track progress and reward healthy lifestyles, making it easier to get life insurance through Foresters Financial without a medical. Dacadoo have also created a platform with Albertsons for consumers to track food/lifestyle choices to make healthy and informed choices.

In essence, by cultivating strong network partnerships and leveraging the benefits of collaborative innovation, life insurers can access new customer cohorts, enhance customer retention, and gain an enduring competitive edge in the marketplace.

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2 Product system

Product system innovation centres around defining complementary products and services alongside the core insurance products to respond to evolving consumer needs/preferences and augment the quality of customer relationships. Right-fit complementary services and products can deliver value dividend in a few different ways – improve risk profile on books, build brand advocacy and value, and improve retention.

The intersection between health, wealth, and insurance is an opportunity for insurers to remain competitive and create holistic, wellbeing-focused, tailored solutions. Current regulatory and legislative restrictions in Australia prevent life insurers from paying for health treatment subject to a Medicare rebate or from funding out of pocket expenses that may improve wellness and return to work outcomes for policyholders. Greater access to treatment and services is likely to improve return to work outcomes among policyholders who suffer from injury or illness. Deloitte Access Economics estimate that, within insurance in Super alone, this could result in 7,800 extra full-time equivalent workers by 2062, delivering $1.9 billion in additional GDP in 40 years' time, and reducing social and other costs by $224 million.[12]

Across the globe, insurance organisations have developed robust benefit ecosystems, where customers receive additional value from practicing risk-reducing behaviour.

YuLife is a UK-based startup that is an example of company that offers B2B insurance with an incentive-based benefits ecosystem. YuLife focuses on improving the end policyholder's life with wellness opportunities and encourages the uptake of them with gamification. Through its purpose-built app, users are encouraged to walk, cycle, meditate and do other activities and in turn can receive rewards like groceries, vouchers, and discounts. Its app also lets employees access mental health support and virtual healthcare. Beyond just life insurance, YuLife additionally offers health and dental insurance.

YuLife's product system is aimed at benefiting both policyholders and the insurer in terms of long-term behaviour change that leads to improved health and ultimately risk reduction. It also increases policyholder engagement with the insurer, and provides a complementary revenue stream for YuLife through its app-only SaaS employee wellness and benefits platform (i.e. offered without insurance).

According to YuLife, with over 1,000 companies signed up, its policyholders' daily step count is 76% above the UK average, companies whose employees use the app reported an 11.5% reduction in staff absenteeism[13], and its monthly average app usage is 11x the industry average of other wellbeing apps (44% versus 4%).

12 Deloitte-ASFA report on "The future of insurance through superannuation"

13 https://www.prnewswire.com/news-releases/new-total-economic-impact-study-insuring-with-yulife-generates-181-roi-compared-to-traditional-insurance-providers-301669986.html

3 Product performance

By leveraging technological advancements and digital and data capabilities, insurers can offer tailored and cost-effective solutions to meet the dynamic needs of their customers and maintain an enduring competitive edge in the industry.

Deloitte Access Economics' report on the "Future of Insurance Through Superannuation"[14] concluded that better access to and use of member data, such as age, income and dependents, could see a better allocation of around $1.2 trillion dollars of coverage to better align with insurance need. This is equivalent to 34% of total sum insured across life, TPD and IP.

Consumers are increasingly willing to share their data for the right incentives if insurers can clearly communicate the exchange value. This additional data, if harnessed correctly, would enable insurers to offer risk-informed products with accurate pricing and innovate their offerings (e.g., behavioural insurance).

Developments in analytics, wearable devices, connected health, and artificial intelligence offer insurers the opportunity to better understand the evolving risk profile of their customers and engage in tailored risk pricing. By utilising an individual's personalised data (e.g. wearable device biometrics, credit scores and health records), insurers are able to generate valuable insights and provide product offerings and pricing tailored to an individual's personal risk profile.

There is significant appetite in the market for such propositions, with 66% of consumers indicating they are willing to use technologies in exchange for better services and/or lower premiums[15], and 87% of consumers being comfortable sharing personal and lifestyle information to reduce premiums. This will likely have increased post pandemic, with a greater shift in acceptance of (and demand for) digital and automated solutions.

Tailored data collection has several benefits beyond enhanced risk assessment – it enables insurers to better understand their customers' needs, decrease costs through process efficiencies, and appeal to a tech-savvy, younger cohort of customers. This is especially the case if the data is used to generate relevant real time insights and/or products for these customers. Furthermore, such continuous interactions shift the nature of customer engagement, from a single upfront transaction to an ongoing engagement.

14 Deloitte-ASFA report on "The future of insurance through superannuation"
15 https://dxc.com/au/en/insights/perspectives/survey/2020-dxc-insurance-survey-report

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4 Channel

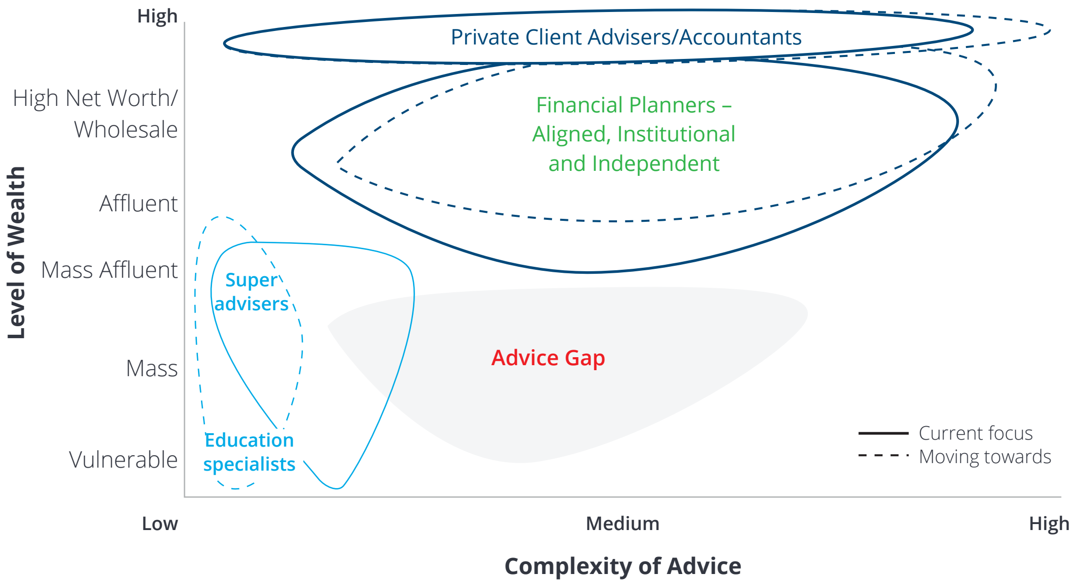
Channel focus is crucial in how organisations create impactful customer experiences, and reach a broader audience. We anticipate that changing consumer preferences towards digital and streamlined experiences will have a significant impact on distribution. Consumers expect insurers to meet them where they are (e.g., digitally, hybrid). This shift towards digital will also allow insurers to implement ESG initiatives via reduction of carbon footprint, in-person interactions, paper processes, etc.

Enhancing digital capabilities can enable life insurers to better engage with their customers, ultimately leading to further reach and greater conversion rates. In addition to insurers' own digital channels, they would need to actively look for opportunities for embedded channels (through 'network' partnerships as explained above) to capture the next generation of insurance consumers, i.e., embedding insurance purchasing into related purchasing journeys.

In terms of Group insurance coverage, both superannuation funds and life insurers are faced with the challenge of having limited touchpoints, and thus opportunity for customer engagement. Through collaborating and developing a joint digital capability, superannuation funds and their life insurance partners can better engage their customers through a single platform, leading to mutual benefit. Enhanced customer engagement in the Group channel allows life insurers to better market to and engage customers on their voluntary cover propositions (currently not getting sufficient take up), addressing a significant gap of underinsurance in the Australian market.

Furthermore, a significant number of advisers selling risk products have exited the Australian market post the Royal Commission and the recent wave of regulatory change. As such, remaining advisers are moving further up the market and focused on serving high net-worth individuals. In addition, default cover from Group insurance might only fully address the needs of low-income consumers. Taken together, the reduced Group cover and difficulty (and expense) of receiving insurance advice in Australia leaves a large gap of under advised and underinsured customers within the middle-income bracket. Figure 7.2 demonstrates this. Whilst it is encouraging to see the Government's proposed reforms to make it easier for super funds to provide financial advice, in response to the Quality of Advice Review, this has not been extended to life insurers, banks and other financial institutions.

Figure 7.2: The Emerging Advice Gap



Source: Deloitte

This gap represents a sizeable potential customer pool for life insurers, with the opportunity to develop lower-cost, digitally enabled advice propositions to support the distribution of risk products. Exploring with Generative AI may offer this ability to engage with and advise this segment digitally and autonomously. American Insurtech Lemonade offers some good learnings for Life insurers in how to innovate around the channel(s) to fuel growth; evident in the 425k customers Lemonade was able to acquire across 24 US states within the first circa 2 years. Lemonade set out to disrupt the traditional insurance market through use of AI and behavioural economics principles to mainly target digital native millennial, tech-savvy individuals with few assets. The platform uses AI and has a user-friendly mobile app to streamline the process of obtaining affordable life insurance plans, with users able to sign up for plans within minutes.

5 Customer engagement

There are two dimensions of engagement insurers need to lean into – depth of the relationships and breadth of segment focus.

Depth of relationship represents the quality and frequency of interactions with the customer base, both new and existing. Technology and digital capabilities will enable insurers to capture new and different data points to create a holistic picture and better understand their consumers, ultimately enabling the creation of tailored and streamlined engagement points.

Staying connected beyond policy issuance and claims servicing to establish continuous engagement that builds long-term loyalty and natural cross/up-sell opportunities is important. Digital platform ecosystems and AI would play a pivotal role in providing streamlined and enhanced experiences across all touchpoints (e.g., automated servicing and claims, call centres aided by AI or Generative AI), including interactive features (e.g., real-time updates, planning tools, wellness programs).

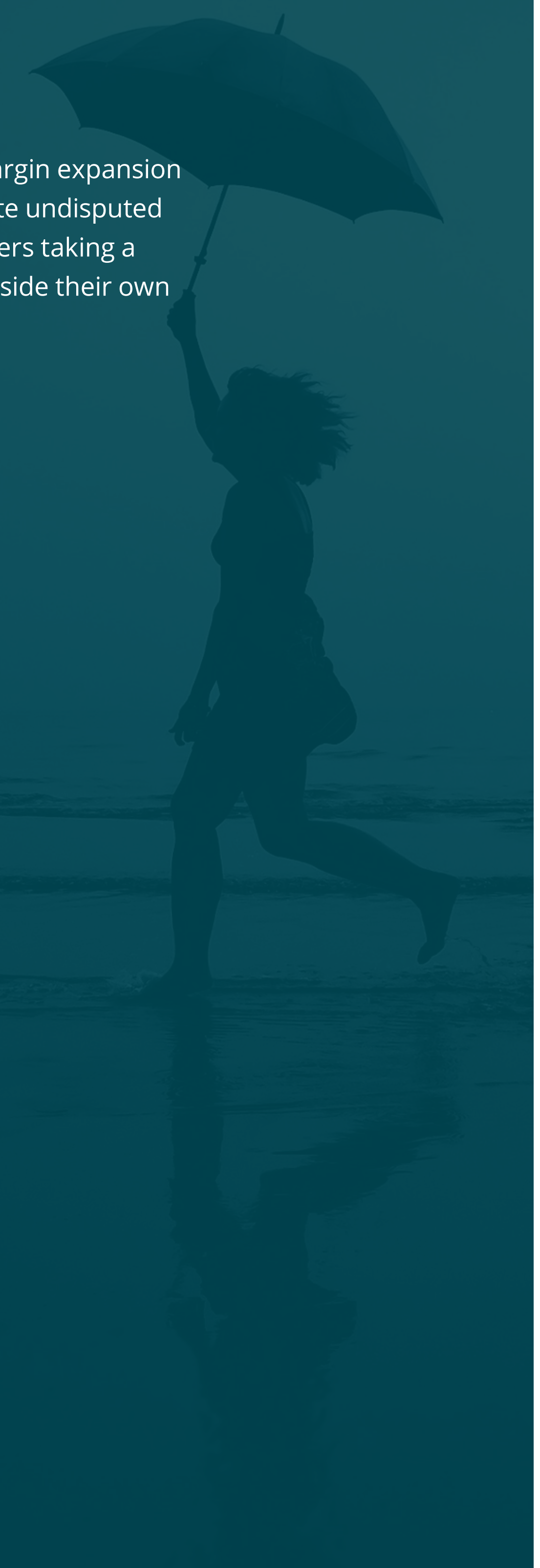
Breadth of segment focus in context of the Australian life insurance industry largely refers to the two critical customer segments at different ends of the spectrum – older Australians and millennials. Both segments are attractive and present significant growth potential, however, demands insurers to build different tailored customer interactions and to engage deeper with the key life stages and trigger points for each segment. By developing unique experiences for each of the segments, life insurers can foster stronger relationships and improve retention.

The number of older Australians is growing rapidly, with the population aged 65 years and over expected to double to 6.4–6.7 million by 2042[16]. The ageing population requires tailored insurance products that address their specific needs at the retirement stage, such as unique longevity and financial/liquidity challenges. By offering customised solutions, like annuities and long-term care insurance, insurance companies can cater to the evolving requirements of this demographic.

Millennial customers on the other hand tend to prioritise high-quality, digital experiences, which can require significant upfront investments in infrastructure and innovative customer propositions. There are several ways that insurance organisations can specifically engage with the millennial cohort, including: better educating millennials on the value of life insurance and instilling greater levels of trust in the sector after successive waves of regulatory scrutiny and heightened media attention. To address this, insurers can look to leverage digital channels for communication, marketing, and customer support. Furthermore, although perceived as financially frivolous, millennials are prudent spenders and are conscious about extracting maximum value for money. As such, life insurers need to provide greater product and pricing transparency to better engage and articulate their value to this younger customer segment.

16 https://www.abs.gov.au/articles/population-aged-over-85-double-next-25-years

8. Conclusion



Life insurers have the opportunity to unlock growth and margin expansion by adopting an innovative approach and mindset to generate undisputed value for their customers. Success can be achieved by insurers taking a system-wide view and placing the social good agenda alongside their own growth ambitions.

Admittedly some of these changes may require industry wide initiatives and we are heartened that CALI, the new life insurance peak body, has committed that it will focus on[17]:

Figure 8.1: Key CALI Focus Areas

- Advocating for Australians to have access to appropriate, affordable and sustainable life insurance protection throughout their lives;
- Informing Australians and key stakeholder groups about the role and value of life insurance; and
- Seeking opportunities for the industry to further contribute to the community.

Truly meeting the broad community needs would however require consorted efforts from all participants within the value chain – life insurers/reinsurers, CALI, regulators, distributors, financial advisers, ratings agencies, and Government.

We have estimated that Australian families could have claimed $25b more last year if not for underinsurance. Furthermore, the Australian life insurance industry could grow by up to $40b in annual premium (i.e. to more than three times its current size of c $18b) by addressing the under-served segments of the market, such as the middle-income segment. There are opportunities to reach and better serve this middle market (which captures an increasing proportion of millennials) plus older Australians nearing retirement, through innovation in product, channel, network and engagement. Each individual insurer should seize the opportunity to grow the market and in doing so to outgrow their competitors as befits the competitive marketplace.

17 https://cali.org.au/wp-content/uploads/2022/08/Australias-life-insurers-announce-formation-of-new-peak-body_22062022-1.pdf

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