

**AIA AUSTRALIA'S INSURANCE  
IN SUPERANNUATION SERIES**

**DISCUSSION PAPER ONE: IMPROVING  
MEMBER ENGAGEMENT AND EDUCATION**

# **BALANCING SUSTAINABILITY, SUITABILITY AND AFFORDABILITY**

May 2022



# INTRODUCTION

Insurance in superannuation has come under significant external scrutiny in recent years. Its value has been called into question by critics of the system, due in large part to insufficient member engagement and a lack of understanding of the purpose and role of insurance in superannuation.

Regulatory reforms have chipped away at universal cover and relatively stable risk pools, and at confidence in the industry; added to a lack of member buy-in, these factors have placed further pressure on sustainability.

AIA Australia believes default insurance in superannuation is the right policy setting to provide a financial safety net to millions of working Australians. To ensure it continues to deliver significant benefits to members, their families and society more broadly, superannuation trustees are faced with the increasingly difficult challenge of balancing three equally important pillars: sustainability, suitability, and affordability.

**It is clear we need to think differently.**

**In order to address these issues, we are applying the following guiding principles:**

- ensuring all Australians have access to sustainable and valuable default life insurance within superannuation
- providing simple, relevant and engaging propositions that allow Australians to tailor the level of cover they need while balancing their retirement needs
- addressing societal needs by adding value for customers, trustees and society – this is our shared value philosophy.

AIA Australia will prepare a series of discussion papers that look at different areas of the insurance in superannuation framework, to consider how the system can optimise to deliver sustainability, suitability and affordability.

We believe that greater member engagement and education are fundamental to the future success of the industry. Trustees can learn more about their membership and its needs when members are engaged, allowing them to personalise their offering accordingly and ensure default cover is fit-for-purpose. Engaged members are more likely to realise the value of the cover they hold. AIA Australia's ecosystem of health and wellbeing tools and services can inspire and incentivise members to know and then improve their health, leading to lower premiums and improved system sustainability.

The introduction of the *Your Future, Your Super* (YFYS) reforms has created an opportunity to change the way we engage and attract members, which will be critical to long-term industry sustainability.

This discussion paper is the beginning of the conversation about how we can co-design a suite of solutions for members that promotes engagement within the current regulatory landscape.

# THE IMPORTANCE OF “SUSTAINABILITY”

A key pillar of delivering value into the future is ensuring insurance in superannuation remains sustainable.

In 2019 and 2020, insurance in superannuation experienced significantly higher claim costs than had been expected or priced into premiums, which has the potential to create prudential issues and volatility in future premiums. The introduction of the *Protecting Your Super* and *Putting Members' Interests First* reforms also generally saw an increase in premium rates across the industry.

In March 2021, APRA wrote to life insurers and superannuation licensees to express concern about the deterioration in group life insurance claims experience. It noted its expectation that the industry would take steps to ensure that insurance offerings and benefits are sustainably designed and priced, provide appropriate value for members, and adequately reflect the underlying risks.

**In our view, sustainability is broader than just stable prices – it extends to ensuring that a product's features meet genuine needs and that the community is confident that the product offers enduring value and fairness.**

The Actuaries Institute has recently undertaken a significant program of work looking at the sustainability of the individual disability income insurance (IDII) market, following intervention by APRA in late 2019. We have used the Actuaries Institute work as a starting point to propose a definition of sustainability that is appropriate for insurance in superannuation.

# AlA's proposed definition

## Sustainability in insurance in superannuation provides:

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Products that perform as expected by trustees and members, with features that:

- meet the genuine needs of the membership (through both the type and level of default cover) without unnecessarily eroding superannuation account balances
  - provide more certain outcomes and are readily understood
  - enable the payment of genuine claims and support claimants where appropriate with their return to work and wellness.
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Ability for members to voluntarily purchase additional cover (or adjust their type or level of cover) to better meet their individual needs.

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Prices that are stable and predictable over time, and consistent with the underlying risk.

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Financial outcomes for insurers that sustain the ability to pay claims and that ensure insurers can continue to provide valuable products to the market.

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Community confidence as to the enduring value and fairness of life insurance products.

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## Themes impacting sustainability

Looking at sustainability through the lenses of the member, trustees, the insurer and regulators, it is clear there are a number of factors that continue to drive the need for change. We have identified the following problem statements that are driving sustainability issues:

1. Low confidence and understanding of insurance in superannuation have resulted in a lack of demand and appreciation of the value associated with insurance.
2. Poor historical data practices have impacted the industry's ability to sustainably develop and price products.
3. A focus on price, driven by the tender process, has resulted in less sustainable product and pricing strategies.
4. The lack of a clear purpose for insurance in superannuation has created inconsistent objectives for stakeholders.
5. The legislative framework limits the ability to provide benefits that better meet member expectations.
6. Continued regulatory intervention has disrupted risk pools and created pricing uncertainty.
7. Unpredictable external factors have led to higher claims costs than expected.

We want to change the perception that insurance is only valuable at claim time. Instead, we want to demonstrate to members the value of our services with products that can be integrated into their daily lives and used upstream in their wellbeing journey.

This discussion paper is focused on the first problem statement above – that is, low confidence and understanding of insurance in superannuation have resulted in a lack of demand and appreciation of the value associated with insurance.

# Low confidence and understanding of insurance in superannuation have resulted in a lack of demand and appreciation of it's value.

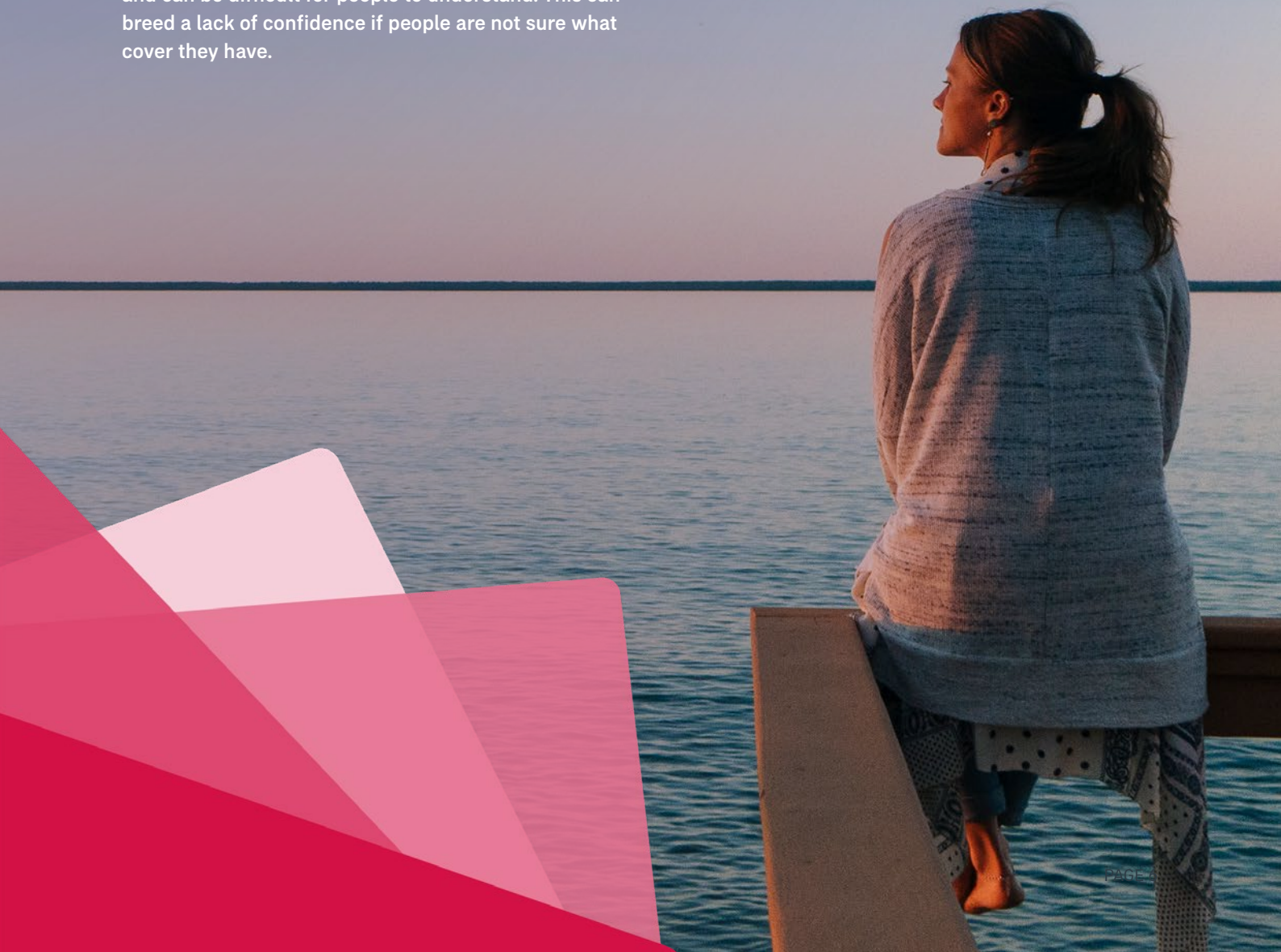
This problem statement is both an outcome and a cause of poor member engagement and education.

Like many types of risk protection, life insurance is often only valued when consumers make a claim, or where they are actively engaging with their cover following a significant life event. Given life insurance covers "once in a lifetime" types of events, many consumers struggle to associate these events with themselves – particularly younger people – so the need for protection is not always recognised. Many consumers simply see this as a cost – just another fee that's eating away at their superannuation.

Life insurance products are also relatively complex and can be difficult for people to understand. This can breed a lack of confidence if people are not sure what cover they have.

In 2016 we conducted research on individuals understanding, perceptions and attitudes to life insurance in super. This research told us<sup>1</sup>:

- With a significant majority of life insurance provided on a default basis, many superannuation members will not even realise they hold cover, or know the level and or type of cover they have.
- If community confidence as to the enduring value and fairness of insurance in superannuation is low, this is likely to impact the sustainability of the system and its value will continue to be scrutinised.



# THE IMPLICATIONS OF STAPLING

The regulatory reforms of the past few years have heightened the importance of an engaged membership.

The *Protecting Your Super* changes that commenced in 2019 put inactive members at risk of losing their cover unless they opted in to retain it. This led to trustees, insurers and industry associations investing substantial resources into making people aware of the change in law. As a result, ASFA<sup>2</sup> estimated that about 16% ultimately made an active decision to hold onto their cover.

Now, the *Your Future, Your Super* reforms have the potential to significantly change the landscape for insurance in superannuation – in particular, the requirement for members to be “stapled” to a fund unless they choose otherwise.

Stapling requires an employer to pay an employee’s superannuation to their existing superannuation fund if they have one, unless the employee selects another fund.

Disengaged members may stay with their original fund throughout their working life, even when they change industries. This means that over time, funds could have a much more diverse membership base.

Default insurance is designed with the membership’s characteristics in mind. For industry funds, those characteristics will be specific to the relevant industry (age, gender, occupation, salary level). Under a stapled system, membership characteristics could be significantly altered, and thus the implications for appropriate and affordable insurance design must be considered.

Stapling also moves group insurance away from an employer-led default model, other than for new

**“I don’t know how to calculate my insurance cover”<sup>1</sup>**

**“No idea who provides the insurance”<sup>1</sup>**

**“I know I have insurance, but I don’t know how much”<sup>1</sup>**

entrants to superannuation. This will have an impact on the corporate superannuation market, as new employees will no longer be defaulted into the employer’s corporate fund unless they don’t currently have a fund, or they choose to join the employer’s arrangement.

The implications of stapling mean that it is more important than ever for trustees and insurers to engage and educate members, as the default insurance system will be essentially turned on its head. Members will be defaulted once, with subsequent accounts and insurance in superannuation largely driven by member choice.



## Key engagement points in a stapled system

Funds will need to look at how they can engage and attract new members to realise the benefits of risk pooling – including maintaining scale and the entry of younger, healthier members. This will include employer engagement as well.

### Education and employer engagement

As part of this, funds will need to provide education on the value of insurance in superannuation. Funds can leverage relationships with employers to deliver education to their employees about insurance as part of a broader protection conversation – workers' compensation provided by the employer and default insurance provided by their fund. There shouldn't be a race to the bottom for premiums in order to attract members, as there are clear sustainability issues with this.

### Life events and triggers

Unlike the pre-stapling default model, where members may receive default cover each time they join their new employer's default fund, stapling will mean a "default once" model. This puts a premium on events and triggers, other than the welcome pack, to educate

and engage members. Changing employers, meeting age and balance thresholds, or hitting key life-stage milestones will be critical in providing relevant information to members in a more targeted way.

### Insights to inform relevant engagement

Ensuring meaningful member data points are captured at the beginning of the relationship and throughout a member's journey is integral to maintaining engagement through life stages. With this information, superannuation funds can segment their memberships to create customised communications that resonate with members at pivotal points in time where they should be reconsidering their insurance.

If a fund's default insurance design varies by occupation class (i.e. white collar, blue collar, high-risk), then funds may need to proactively communicate to members when they change jobs, to understand whether there will be an impact on their cover.

A fund will know when someone changes employers – rather than the account simply becoming inactive, they will see a new employer contributing to their account. This becomes a useful trigger to communicate to the member, to ensure they are engaged with their insurance cover and that it continues to meet their needs.



# HOW DO WE IMPROVE MEMBER ENGAGEMENT AND EDUCATION, TO DELIVER VALUE AND FUTURE SUSTAINABILITY?

## Our practical solutions

AIA Australia has a suite of health and wellbeing products and services available to superannuation funds and their membership. Importantly, we want to work with our partners to develop an offering that is appropriate and affordable and in the best interests of the membership. Vitality research shows us that customers are 59% more likely to remain with a product provider if they hold three products with the organisation.<sup>3</sup>

Below we have summarised some of our products and services available to our partners.

### 1. Incentivised wellbeing – AIA Vitality in super

Central to our proposition of helping people live healthier, longer, better lives is AIA Vitality – our science-backed health and wellbeing program – which supports our customers to make healthier lifestyle choices. At the heart of AIA Vitality is the concept of behavioural science. Members are empowered and incentivised to make small lifestyle changes with the aim of decreasing their risk of non-communicable disease, such as diabetes, respiratory disease, heart disease, cancer and mental health conditions and disorders.

By focusing on four core pillars: physical activity (Move Well), nutrition (Eat Well), mental wellbeing (Think Well) and preventive screening (Plan Well), the program addresses and integrates the key modifiable behaviours that impact physical and mental wellbeing.

AIA Vitality members are rewarded for assessing their physical activity levels and reaching physical activity goals – for example, by hitting daily step counts and tracking their sleep with a wearable device – and for

**Vitality research has shown that customers are 59% more likely to remain with a product provider if they hold three products with the organisation.<sup>3</sup>**

undertaking mental wellbeing self-assessments. The incentives are founded on reducing common financial barriers that make it harder to engage in physical activity – for example, by discounting both wearable devices that help members monitor their activity and also the membership fees of partner gyms.

Our model drives shared value: it delivers better health and value for customers, better claims experience, engaged customers for partners, and a healthier society at large.

Following the success of AIA Vitality in our retail life insurance and health insurance channels, we have developed a solution for our superannuation partners that is available to their members who hold life insurance cover. AIA Vitality in super will encourage members to practise healthy living while making them aware of their superannuation and life insurance and taking positive steps towards financial wellbeing in their retirement.

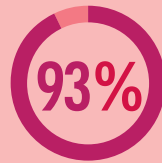
**AIA Vitality in super introduces a new weekly Active Benefit – a \$5 superannuation contribution if the member achieves their weekly physical activity target. Over the working life of a member, an additional \$51,083 could be accumulated in a 30-year-old member's account by age 65.<sup>4</sup>**

The AIA Vitality in super program has a positive impact on customer engagement and retention, and can also reduce health and life insurance claims costs.

Our data shows super fund members with AIA Vitality are:

**12x**

more likely to engage with their fund's app each month<sup>5</sup>



more likely to feel engaged with their super<sup>6</sup>

**20%**

higher uptake of voluntary cover, which is likely to assist with member retention<sup>7</sup>

And we know AIA Vitality members are:

**74%**

less likely to make a claim<sup>8</sup>

**12%**

of members who started with an unhealthy BMI range have moved to a healthy range<sup>7</sup>



agree they've become more physically active since joining<sup>7</sup>

Unidentifiable aggregated member insights gained from AIA Vitality can also assist with data analysis and reporting and positively impact future pricing and benefits, providing more certain outcomes for members, superannuation funds and insurers; assisting with sustainability. Greater engagement with superannuation and insurance will also improve their confidence in the value that their insurance provides, creating a relationship today and not just at claim time or at retirement.

We have developed a video to demonstrate the value of AIA Vitality in super:





## ENGAGE

Engage member through key push or pull triggers



## EDUCATE

Help member understand what they have and what it means  
Explain the different types of covers



## APPLY

Get a quote  
Save a quote  
Automatic decision on cover



## MANAGE

Cover Variations (non U/W)  
Status tracking  
Member of self service

## 2. Simplified insurance education

AIA's LIFEapp tool takes a multi-step approach to helping members engage with their insurance, improve their awareness and understanding, undertake a needs analysis, and make changes to their insurance cover to suit their circumstances through a seamless online underwriting process. We believe that LIFEapp is critical to engage members and increase their satisfaction and loyalty.

The LIFEapp Educate module provides a range of personalised educational materials to help enhance a member's understanding of life insurance. It also includes assistance for members looking to apply for additional cover and determine the type and amount of cover they need.

The module features engaging content in a range of mediums covering a variety of scenarios, including:

- Why you need insurance
- How advice can help you
- What cover people similar to you have
- What type of cover you have
- What is and isn't covered
- How increasing your cover affects premiums and retirement balances.

Our approach to developing the Educate module has been heavily influenced by our consumer research<sup>1</sup> which told us:

- Simplicity and clarity are essential, as people generally aren't willing to invest any time into researching or assessing life insurance
- Messaging should be short, sharp, simple, fast and visual.

The Educate module has been designed using different visual treatments to deliver succinct content that members can consume at their own pace. Members are encouraged to explore their personalised learning pathway (as determined by the information they share and what we learn about them during their interactions). While the member retains full control over how they access the portal, the LIFEapp engine presents educational content that is most relevant to the member's unique situation. Members can choose their own pathway, which may be as simple as checking how much cover they have via the dashboard or drilling down into specific circumstances to help them understand why insurance is important for them.

### 3. Health insurance that protects and rewards, AIA Health

More than half the Australian population has private health insurance.<sup>9</sup> As one of the only insurance companies that has both a life insurance and a health insurance licence, AIA is in a unique position to deliver valuable propositions that bring together life, health and wellbeing, to provide additional value to members and to incentivise healthy behaviours.

**UNLOCK REWARDS FOR HEALTHY LIVING**

- \$** Hospital excess refund: 100% refund on \$750 or \$500 excess payments
- %↑** 10% Increase to non-dental ancillary rebates
- 5%** Upfront Health premium discount maintained with AIA Vitality silver status
- 5%** Earn up to 5% of Health insurance premium as a contribution to your super

Additional benefits:

- Heart icon:** Up to two AIA Vitality memberships included with all policies
- Tooth icon:** No gap dental + higher percentage back at smile.com.au
- Money icon:** \$5 Weekly Active benefit – super contributions

Discounts above based on an AIA Vitality Silver Status

AIA Health's most recent product innovation integrates health insurance with superannuation savings. AIA Health members are rewarded with an annual contribution to their superannuation account. To be eligible, members must engage with AIA Vitality, reaching a minimum Silver status, at which point AIA Health contributes 5% of the member's health insurance premium into their superannuation account, as a reward for healthy behaviours.

### 4. Empowering better and more informed insurance choices – Voluntary insurance campaigns

The main role of default insurance in superannuation is to act as a safety net for Australians who are disengaged with their protection needs. However, one size does not fit all.

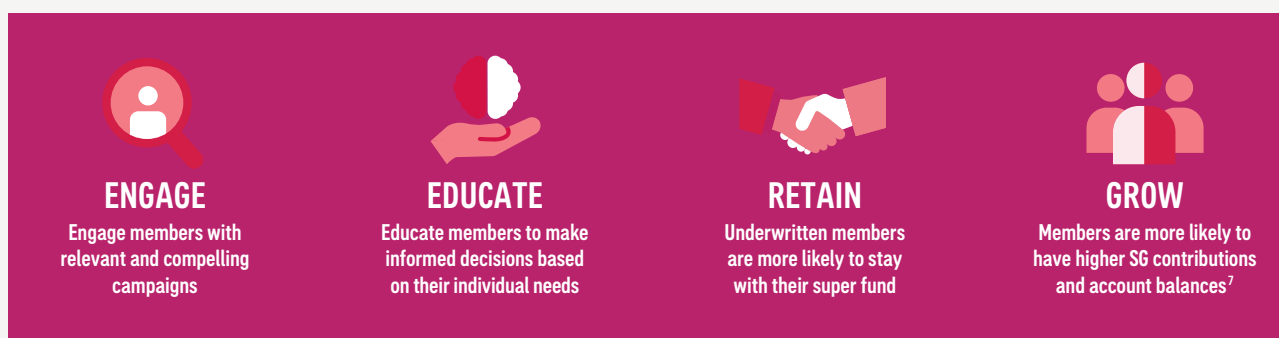
**When individuals have three or more products with one organisation, they are 59% more likely to stick around.<sup>7</sup>**

**Engaging members to make personalised insurance choices leads to:**

- empowered members that make decisions more suited to their individual needs, combating apathy
- greater member education and satisfaction, with members understanding what they're covered for
- improved financial health, with 20% of members improving their financial wellbeing by taking up voluntary cover<sup>7</sup>
- more affordable and sustainable premiums for default risk members
- more engaged members, with 59% more likely to stay with your fund in the long term.<sup>3</sup>

## Our approach

To support our partners, we have created several campaigns to help drive engagement and provide a pathway for members to personalise their cover. **Our voluntary insurance campaigns:**



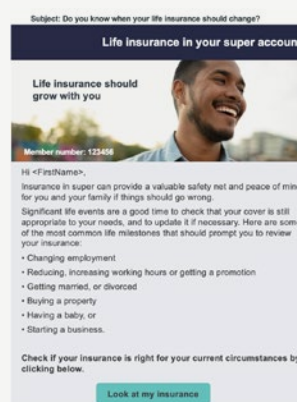
These campaigns address themes like the value of insurance, life stage needs and how to increase your insurance. The campaigns not only provide a simplified pathway to understand and increase cover, but also includes supporting elements such as calculators and education materials to allow members to determine if the level of cover they currently hold meets their needs.

Behavioural science plays an intrinsic role for members comprehension, clarity and confidence in their insurance choices. This helps inform how we engage and educate members digitally.

Behavioural science shows us that there are a number of biases impacting the customer's ability to make insurance decisions, including:

- **Understanding of probability and risk:** the decision requires understanding of probability and risk which members find challenging, and often people overweigh low probability events and underweigh high probability events.
- **Infrequent feedback:** generally, decision-making improves when we receive feedback on the outcome of our decisions, particularly if that feedback is received by experiencing the consequences of a decision. In life insurance however, customers only tend to receive feedback when they go through the claims experience.
- **Choice overload:** there are several choices that members need to make when purchasing insurance, including the type of product and the amount of cover they require; this creates choice overload and leads to choice paralysis or inertia for the member.

In a recent AIA study of over 3,500 Australians,<sup>10</sup> different behavioural science interventions tested the impact on outcomes such as insurance comprehension, clarity about what they can claim for and perceived confidence in their decision.



### The results of the study showed:

- all behaviourally informed tweaks to the original online journey improved perceived customer outcomes around fairness, comprehension and relevance,
- there was a 30% increase in perceived clarity of cover when the benefits and tradeoffs of choices were displayed, and
- choice reassurance increased comprehension by 24% and claims clarity by 30%.

These findings are expected to improve sustainability by providing products that are more readily understood and more closely aligned to genuine needs – leading to increased confidence in their value.



## 5. Supporting members across the health and wellbeing spectrum

We want to help more Australians embrace Healthier, Longer, Better Lives and that's why we've built a health and wellbeing eco-system designed to provide value to our customers at every stage of their wellbeing journey rather than just at claim time. From prediction and prevention, to diagnosis, treatment and recovery, our world-class products, programs and partnerships help our customers stay in good health, and should they become unwell, provide the care and support needed to get them back to wellbeing and work sooner.

We design innovative insurance products that emphasise the importance of prevention and wellbeing, leveraging the insights from behavioural

economics in an immediate rewards system that drives positive behaviour change over the long term.

The change in behaviour results in a healthier pool of insured members, resulting in more sustainable premiums long term and is also used to fund the incentives that encourage behaviour change – thus creating a virtuous cycle. The impact from a clinical and actuarial perspective is significant.

**In this way, our model continues to drive shared value: it delivers better health and value for members, creates more engaged members for superannuation fund partners, and a healthier society at large.**



### PREDICT

To enable the **early and effective** identification of **risk factors** that put individuals at a higher risk of developing diseases or health issues.

### PREVENT

Promotion of a **healthy lifestyle** which includes driving engagement in both **physical and mental wellbeing** components to prevent the emergence or onset of conditions and the related negative impacts.

### DIAGNOSE

Assisting with **early and accurate identification** or diagnosis of disease to allow for **early intervention** which aims to **prevent progression** and additional **unnecessary complications** and improves prognosis and recovery.

### TREAT

Providing **access** to and facilitating the **delivery** of timely, effective, safe and evidence-based **disease specific interventions**.

### RECOVER

Continuing **treatment and rehabilitation** to mitigate the negative impacts of illness and assist with a return to **high quality of life**.

## Potential industry solutions

### 6. Create a data sharing ecosystem

Insurers and trustees often only see part of a member's journey across their life insurance lifecycle. This makes it challenging to ensure that the benefit design and options available are suitable, but also that members are maximising their outcomes.

Better use of data can allow more targeted member communications. The creation of a data ecosystem, to share data between life insurers, trustees and administrators, as well as with employers and workers compensation insurers, will provide a more complete picture of a member's journey and allow greater insights and engagement.

### 7. Improve data capture and dissemination via SuperStream and the ATO

Trustees and insurers could strengthen individual member support, value and engagement through the access and use of additional timely member data (such as member employment status, income, occupation) which could be provided through SuperStream, in addition to the consideration of other data, such as household data through other information sources (such as the ATO).

This additional member data could be used to:

- identify when a member's employment status has changed, which may impact the level of cover and pricing. For example, where a person is unemployed for a long period of time, their fund can engage with the member to provide information around changes to their cover as a result of the period of unemployment (like changes to disability definitions) along with options to reduce premiums to reflect this lower value cover, and provide the member with options to continue/pause/stop cover
- assist funds in developing 'smart' default, and more targeted bundles, similar to AIA's [MyNeeds concept](#),<sup>11</sup> that are better targeted at the unique characteristics of specific member cohorts to improve member decision making
- create product pathways that drive choice by the member, either within superannuation or outside superannuation
- provide additional opportunity for trustees and insurers to engage with members in a more personalised manner to identify where members may wish to consider different levels and types of insurance cover based on their personal needs
- provide additional member support for their overall wellbeing through more personalised health and support programs.

### 8. Create an annual "Check Your Cover" day

The various campaigns that were run in the lead-up to the commencement of *Protecting Your Super*, including AIA's *Check My Cover* campaign and ASFA's Time to Check campaign, demonstrated the importance of encouraging members to engage with their superannuation and insurance and take appropriate action when needed.

Industry could run an annual "Check Your Cover Day", using advertising and member communications, to increase consumer awareness about default insurance and a point of reflection to determine if it's suitable.

# REFERENCES

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