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Group Insurance - The impact of the stapling reforms

The November 2021 superannuation stapling reforms whilst aimed at reducing account erosion are predicted to leave members who change jobs at risk of having inadequate life insurance cover. A recent study by MLC has indicated that the majority of members were unaware of the impact of stapling.

Given this general lack of stapling awareness, how can group life insurers and other stakeholders best ensure that members understand the impact of the stapling reforms and are more actively engaged in their insurance arrangements and choices?

In the Loop with Group

Australia’s compulsory superannuation system is celebrating its 30th birthday this year. Managing around $3.4 trillion on behalf of 16 million Australians (1), it has understandably become a more prominent priority of the government to ensure the system is efficient (2). Stapling was hastily introduced to reduce duplicate accounts, but implications for group insurance are still coming to light. We have to ask ourselves how do we respond to these challenges, and how can we use this as an opportunity to improve the insurance experience for our customers? Funds need to improve data collection and platform integration, and consider opportunities for artificial intelligence (AI), to deliver personalised communications to members that are relevant and timely. While awareness campaigns have previously been used for reform awareness by the industry with some success, reviewing international efforts can help shape future campaigns for increased engagement.

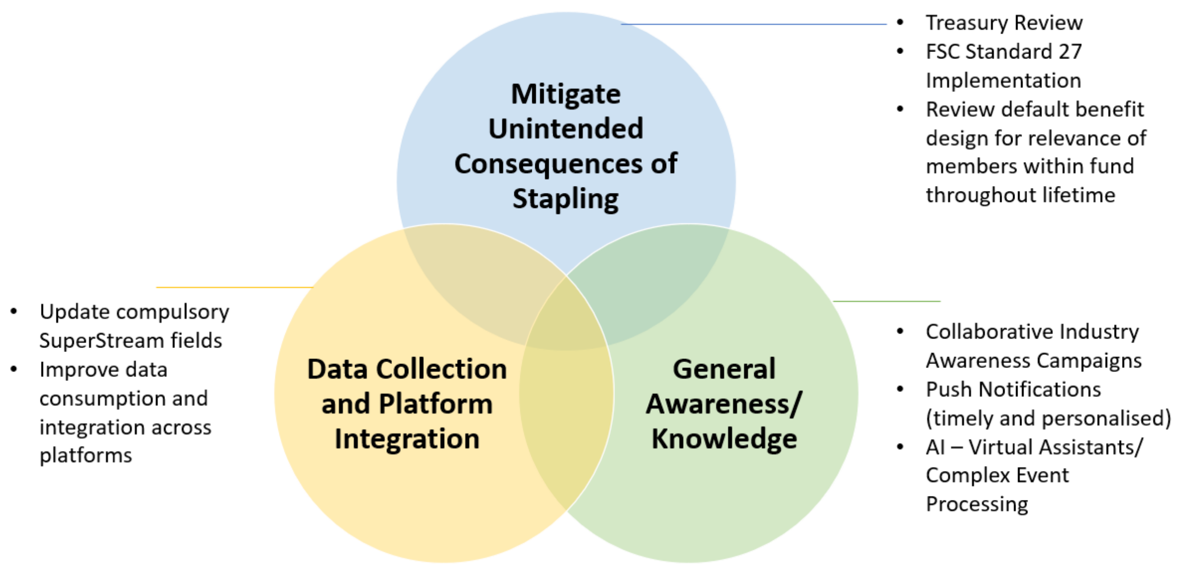
In the 2018 Productivity Commission review of the efficiency of the superannuation system, it was identified that over a third of super accounts at the time were ‘unintended multiples’ – the outcome of an outdated model whereby a default fund is “anchored to the job or the employer, not the member” (2). A recommendation by the Productivity Commission, supported by Commissioner Kenneth Hayne in his final report following the Royal Commission into Misconduct in the Banking, Superannuation and Financial Services Industries, was that a member be ‘stapled’ to a single default account (2,3) and the ‘Your Future, Your Super’ (YFYS) reforms implemented this effective 1 November 2021. The aim of stapling is to reduce account erosion through duplicate fees and insurance premiums on multiple accounts (4). Stapling means that when an individual moves from job to job, their existing superannuation account (including any insurance within super) will follow them, unless they make a choice to select another fund.

While stapling has addressed account erosion through the removal of duplicate accounts, there have been unintended consequences for Australians in relation to insurance in super, amplified by the lack of awareness of stapling reforms and their arrangements and choices regarding insurance in super more generally.

Unintended Consequences of Stapling

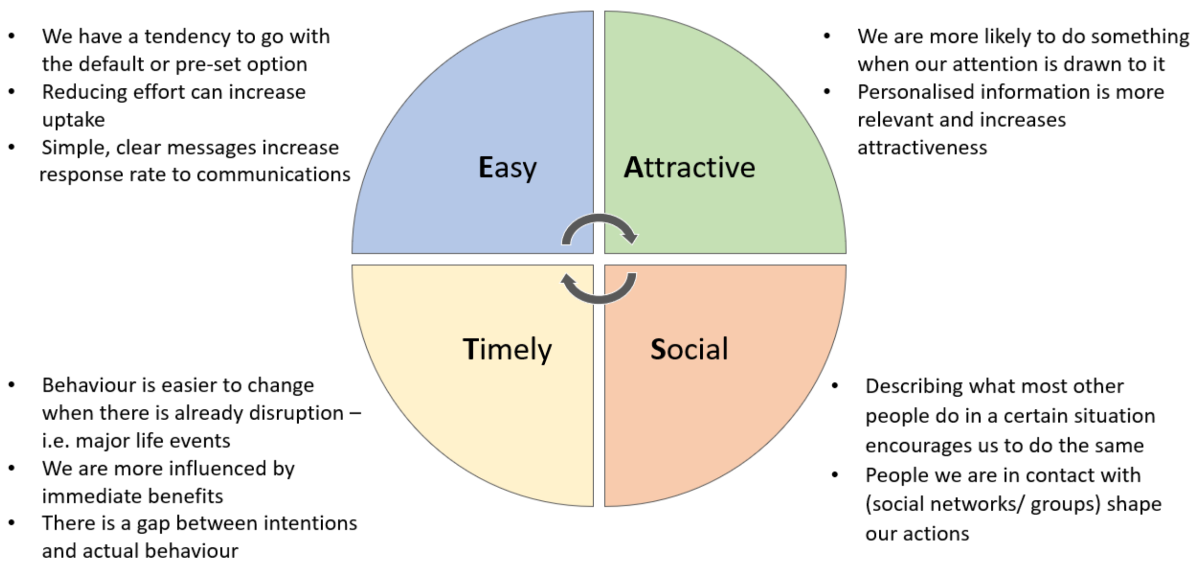
One key concern arising from this reform is that there is a risk that members who change occupations to work in higher risk roles may be stapled to a fund whose default insurance no longer suits their needs due to occupational exclusions (5). The industry response to this was the release of FSC Standard 27 on 10 December 2021, effective 1 January 2023 (6). The Standard ensures members with default cover are not prevented from making a claim due to the nature of their occupation (6). The Standard enforces the removal of occupational exclusions and occupation-based restrictive disability definitions for default insurance (6). Xavier O’Halloran, Director of Super Consumers Australia, acknowledged the problem was partly dealt with by the FSC’s response (5). On 7 September 2022, a consultation paper was released by Treasury, preceding a review into the unintended consequences and implementation issues associated with the four elements of the YFYS measures – including stapling (7).

With the intention of stapling clear, insurers need to adapt to the required portability of benefit design throughout a member’s lifetime. The below illustration highlights key considerations for industry stakeholders to support member best interests, optimise member understanding of stapling reforms, and encourage general engagement in their insurance arrangements and choices.



Behavioural Insights

The basis for recommendations in this paper around supporting member understanding of stapling and enhancing member engagement with their insurance arrangements is the below EAST framework (8), based on behavioural research insights.



Adapted from information in (8)

Stakeholder Opportunities

Insurance Design Suitability

Funds develop an insurance strategy and design appropriate to the characteristics of their membership (e.g. age, gender, occupation, salary), including consideration of types of cover and sum insured offered for default cover (noting Death and TPD are compulsory under MySuper legislation). The now defunct Insurance in Superannuation Voluntary Code of Practice (VCOP), adopted by many funds shortly after its implementation in 2018, detailed this requirement along with a requirement for premiums for default cover not to exceed 1% of an estimated level of salary for the membership generally [clause 4.8] (9). With increasing diversification of membership following the introduction of stapling, funds need to re-evaluate their insurance strategy and design for different cohorts within their membership base to ensure it continues to be appropriate for members throughout their lifetime, reflecting their changing circumstances.

It is crucial for insurers and funds to consider cohorts within the changing membership that require varying default insurance design. While age-based scales aim to differentiate insurance needs across age, this doesn't address the increasing need to differentiate based on occupation group. More hazardous occupations have increased morbidity at younger ages (10), so insurers and funds need to ensure their benefit design responds to the changing needs of members throughout their life.

"***Without Big Data, you are Blind and Deaf and In the Middle of a Freeway***" - Geoffrey Moore

Behavioural insights research highlights that communication to members needs to be simple, relevant, personalised and timely for the best engagement (8). This needs to start with funds having better data collection and fully integrated platforms. MLC's study found 80% of people would be happy to provide additional information about their life circumstances to receive help understanding the best insurance product to meet their needs (11).

SuperStream is the electronic gateway by which employers send information and contributions for employees to funds. Currently there is compulsory data employers need to provide, although the addition of the below data points would enable funds to deliver personalised, timely communications or a call-to-action for members.

- *Occupation and Industry*
- *Marital Status*
- *Number of Dependents*
- *Income/Salary*

New employment information can trigger messages to members to review their insurance in relation to the implications of stapling. Other data can also mean communications can be tailored for members so they can consider choices about special offers available to them to increase their default cover without full underwriting (e.g. Life Events cover).

Additional fields added to SuperStream for compulsory data on occupation and industry would allow funds to identify cohorts of members, potentially impacted by stapling, to consider default insurance design requirements, enabling targeted communication opportunities to offer members an insurance design appropriate to their changing circumstances. Members could be presented with a short health questionnaire or be subject to New Events cover in order to change their benefit design to meet their changing needs.

While default insurance should be a base level of cover, funds should consider proactive communications to members where they have a salary increase (e.g. greater than 10%), to prompt consideration of voluntary insurance. With the cost and growing shortage of financial advice (12), providing members with tools such as Insurance Needs Calculators, and pre-filled enquiry forms for the advice team at the fund, empowers members to make choices about their insurance arrangements with confidence and minimal effort.

General insurer, Youi, has adopted the approach of finding out more about customers in order to provide them a product more appropriate to their needs. Similarly, group insurers and funds can look to fine tune the insurance offering to members with a 'Know Your Member' philosophy, encouraging members to share more information through in-app surveys, in order to personalise a member's insurance offering.

Further, data sharing across the financial services industry – including banking data - would give insight to when a member has taken out a mortgage, for example – another key life event where it may be useful for a member to review their insurance needs.

The following data, already available to funds, is currently being used to communicate with members about PMIF and PYS reforms and their impact on a member's insurance, albeit there are opportunities for improved delivery of this communication (discussed later in this paper).

- *Account balance*
- *Age*
- *Date of last contribution*

Data availability and consumption is the initial consideration, although funds need to have fully integrated platforms for communications to be seamless and relevant to members. Administration systems need to be integrated with mobile apps to enable immediacy of communications upon receipt of data for increased engagement.

Reducing the Friction

While 83% of members surveyed by MLC considered insurance in superannuation to be important, only 25% knew what they were covered for (11). Group insurance has historically been a passive, value-add, opt-out arrangement - but it should be a core component of the superannuation offering with better understanding of its value. With the aforementioned opportunities for increased data collection and platform integration, funds can improve member communications to be more personalised, relevant, simple and attractive.

Complex Event Processing (CEP) is a form of artificial intelligence (AI) that processes real-time data, extracting information to identify events that can trigger an alert to a customer as soon as possible (13). This form of AI can be used to process changing data in an administration system against policy terms, or stapling reform impacts, to identify relevant times for members to make decisions about their insurance. Delivery of alerts to members would be the most effective through push notifications.

Push Notifications

It is estimated that 86% of the Australian population uses a smartphone (14), making it the dominant portal for information dissemination and communication. Push notifications are an automated message sent to a user by an application when the application is not open – fostering increased interaction and engagement with the user by up to 88% (15) and can be triggered by a specific event. While funds do have mobile apps, there is limited use of push notifications currently beyond acknowledging contributions in the writer's experience.

Rich push notifications can include a deep link to encourage the user to click to complete actions outside the app (16). This could involve directing members to information about stapling on a fund or government website at relevant times (Figure 1). Contextualised push notifications use APIs (Application Programming Interface) to pull data to help deliver messages that are relevant and personalised for maximum engagement (16). Identifying major life events through APIs between the app and the administration system would promote meaningful member engagement alerting members to policy terms and offerings relevant to their situation i.e. Life Events (Figure 2,3).

Figure 1 **Figure 2** **Figure 3**

Push notifications are the direct channel from the fund to the member. They can add value for members in real-time, personalising messaging so they are useful and timely. The issue with members 'not knowing what they don't know' and being unmotivated - or unaware of where - to access information in relation to their insurance can be addressed by using data to identify what is relevant for them at the right time and directing them to resources to make understanding and choices easy.

Virtual Assistants (VAs)

Coined the 'Chatbots of the Future', VAs conduct conversations through a textual or auditory interface, incorporating "natural language processing (NLP), dialogue control, and domain knowledge that changes according to content and context of the dialogue" (17). An effective VA platform can adapt across channels, providing consistent contextual messaging, given some customers prefer diverse communication methods for interaction (17). VAs, as a form of AI, enable presentation of targeted, relevant information to members, which can address the complexity of 30+ page Insurance Guides, and searching for information on websites, about the impact of stapling reforms, simplifying the experience for members.

Empowering Choice

An initiative from the YFYS reforms was the development of the YourSuper comparison tool on the ATO website – aiming to provide simple and clear information for members to easily assess fund performance based on fees and investment performance. This has been effective to the extent that the shape of outflows has changed, with members moving to the highest performing funds (5), however the failure of the tool to consider implications for insurance when changing to another fund could have detrimental consequences for members (i.e. ineligibility for default insurance with the new fund) and devalues the importance of insurance. Experts agreed digital tools for insurance product comparison should play a pivotal role in member product navigation (11). Insurers have a role here to support development of a tool, not just to present information, but to enable members to understand the implications specific to their circumstances.

Education and Engagement

Industry Collaboration for Awareness Campaigns

70% of working age Australians have life insurance - primarily because of insurance in super (18) - despite this, there is limited engagement (11). This is the opportunity for insurance and superannuation peak bodies (CALI, ASFA and AIST) to collaborate and create a national campaign to promote awareness of stapling reforms and general engagement in both superannuation and group insurance, supported by insurers and funds.

In the lead-up to the PYS reforms, ASFA and the FSC ran a 'Time to Check' campaign to raise awareness for members about the effects of the reforms (19). This, along with engagement of funds with their members, led to an average of 16% of affected members deciding (opting in) to maintain their insurance (20). With some demonstrated engagement from this campaign, there is enormous potential for further larger-scale member engagement with more targeted integration into workplaces.

#PensionAttention

A co-ordinated industry campaign was rolled out this year in the United Kingdom with the aim of improving people's engagement and knowledge about their pensions (21). Featuring Grime artist and TV cook, Big Zuu, the campaign is led by the Association of British Insurers (ABI) and the Pension and Lifetime Savings Association (PLSA), with a financial and resource commitment from the industry providers and schemes over a three-year period to support the campaign (21).

The campaign is fully integrated on social media, with a music video featuring Big Zuu that encourages people to ask questions and understand their pension (Figure 3) (22). A Pension Awareness Week has been planned with live shows on a range of topics and the Pension Awareness Day website provides a promotional toolkit for organisations to use the materials to engage with employees, including intranet articles, posters and flyers (23).

Figure 3 (22)

Industry stakeholders can take a lot out of the #PensionAttention campaign when considering content, engagement and education strategies for superannuation and group insurance. Encouraging employers to support the campaign empowers members through social networks which, behavioural insights evidence supports, increases engagement (8).

Conclusion

Australians are notoriously apathetic to superannuation, and the insurance they hold within super. Stapling is the latest piece of legislation which forces people to abandon the default passive position and engage with their super. The enhancement of technology will allow insurers and funds to be genuinely engaged with the membership in a dynamic, meaningful way which can anticipate their insurance needs as their lives and circumstances change, improving their understanding and engagement in their insurance arrangements, including the impact of reforms such as stapling. Now is the moment of opportunity for us as an industry to lay the foundations for a lifelong relationship which will keep our members **#InTheLoopWithGroup.**

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