Price rules as tech alters life insurance

EXCLUSIVE

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The life insurance industry is undergoing a generational change driven by technological change and price competition, leading to the commoditisation of policies, a move that could have worrying consequences.

Anthony Brown, chief executive of the independent life insurer NobleOak, said that with companies battling fiercely to provide cover at the lowest price amid a shift to digital-only interaction with customers, the consumer could lose out at claims time.

"Greater product commoditisation is driving greater price competitiveness in an environment where many traditional life insurers are losing money due to inadequate risk pricing, while battling with huge regulatory and structural changes," Mr Brown said. "The headwinds for traditional life insurers are profound. I really hope the ultimate winner is the customer," he told *The Australian*.

"Customers who have bought on price alone, with little or no underwriting at the time of purchase, may find their claim is not processed smoothly or is even declined. This will exacerbate the lack of trust in the industry overall. Price is important; however, it should never be at the expense of a robust product that can be relied upon."

The comments come as NobleOak launches its white paper on consumer behaviour in the life insurance sector, after surveying 1000 Australians in December.

The report, to be released this week, found technology was making it hard for insurers to differentiate their products — about two-thirds of Australians would now buy a policy online or on their mobile.

About 80 per cent of respondents said the price of the insurance premium was the most important factor, while one in two said they would not renew with their current insurer because they were "too expensive".

Australians were also shunning professional advice when buying a policy, with more than half of respondents unwilling to pay anything for life insurance advice.

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The $60 billion life insurance industry has been punished in recent years, following a string of claims-handling scandals at major insurers.

A parliamentary inquiry into the sector is due to report early this year, and key areas of interest for MPs have been the genetic testing of customers, widespread use of medical records without patient knowledge, and anti-competitive behaviour in the financial advice sector.

But while the industry is facing numerous regulatory challenges, such as new codes of practice and a federal government interested in bringing down insurance fees in superannuation, insurers have also been forced to dramatically wind back premium increases amid consumer dissatisfaction following years of rampant price hikes.

"The increased pressure from regulators and politicians with respect to life insurers, is a huge industry failing, as a result of unhappy customers who have lost trust in an industry that has not delivered to people's expectations," Mr Brown said.

"The challenge for life insurers in the future is to stand out and differentiate in a mature industry where the consumer is taking more control with better digital access to information and tools."

"The main ways insurers can differentiate in the current environment is to deliver a trustworthy quality product at a fair price and in a simple way, and focus less on adding clever 'bells and whistles' to products, that can make them more expensive and confusing."

The Financial Services Council in December released its new standard for approved products lists, which are used by large institutions to limit rival-owned products available for their financial advisers to sell to customers. The rules drew instant criticism from sections of the industry pushing for greater consumer rights.

"We believe that APLs should be open so that consumers get the benefit of better options and choice of cover," Mr Brown said.