# Value of Life Insurance Report

MetLife Australia
October 2022

# Contents

# 1. Foreward from CEO Richard Nunn

In the twelve months since we released the 2021 Value of Life Insurance Report, the expectations of the life insurance industry has changed significantly with evolving customer needs. This is a timely reminder of the value of life insurance in building a more confident future. MetLife, along with key players in the life insurance industry are having to rapidly adapt in response to regulatory change and consistently evolve to meet customer expectations, in a world that is demanding anytime and anywhere access that is at the discretion of the customer.

External factors, such as a global pandemic, create more urgency in reshaping service delivery within the industry, with customers now expecting enhanced products and services that meet their individual needs and more digital options to interact with their insurer. This digital acceleration combined with a greater focus on an individual's financial situation now and in the future, puts life insurance front and centre for fulfilling our purpose of always being there for the customer.

In the 2022 Value of Life Insurance Report, we have focused on the changing operating environment for the life insurance industry and what this means for customers, life insurers, intermediaries, regulators, and policy makers. We have also focused on key themes such as financial literacy and the impact this has on underinsurance in an effort to increase awareness of life insurance and support informed decision making.

I'm pleased to share with you this year's Value of Life Insurance Report. This is one of the ways we are contributing to building a more confident future for all and we welcome feedback on improving the life insurance industry.

Regards,
**Richard Nunn**
**Chief Executive Officer, MetLife Australia**

## 2. Executive summary

As a global company, MetLife has extensive insight and exclusive access to research covering the life insurance and related industries across 40 different markets to design and develop products for diverse customers.

The 2022 Value of Life Insurance Report explores new areas that support a more confident future for Australians:

- **Value** — this is a multidimensional concept that has varied meanings for different stakeholders. The report articulates value for a range of groups and aims to drive understanding about the benefit of life insurance, as an easy-to-explain proposition. See Section 4 – Value of life insurance.
- **Legislative agenda** — we have seen significant legislative and regulatory reform, with participants from across the industry focused on implementation. With limited new measures for the industry in the March 2022 Federal Budget, it remains to be seen if the new Government has reform plans in motion. See Section 5.2 – Regulatory reform.
- **Digital service delivery** — as customer expectations about their interactions with businesses continue to increase, more focus on technology will allow insurers to provide enhanced and tailored digital experiences and products for customers. See Section 5.3.2 – Evolution of Group life insurance.
- **Financial literacy** — it is surprising to discover that the understanding of basic financial concepts is low among Australians which may be correlated with member engagement. In this report, we explore financial literacy in Australia today and consider how to improve literacy. See Section 6 – Financial literacy.

# 3. Key insights - a preface

### 3.1 Macro-economic context

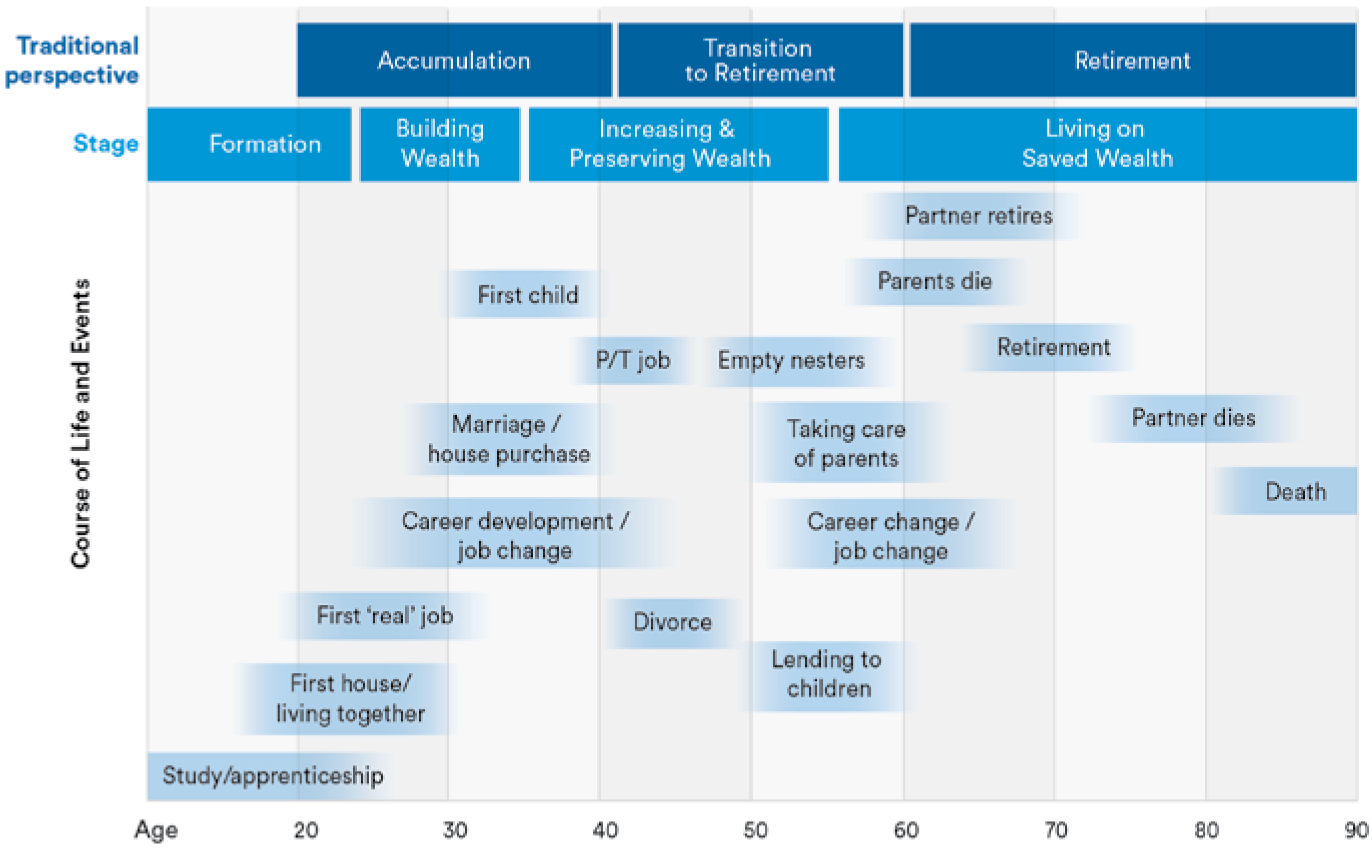
The social and economic impacts of the COVID-19 pandemic have been widely documented, with certain aspects worth reflecting on in the context of the value of life insurance.

Deep and prolonged financial pressures on Government have contributed to depleted revenues with increased expenditure through the pandemic and have led to record debt levels.[1] This reinforces the increased and sustained importance of the economic benefits of life insurance (as outlined in the 2021 Value of Insurance Report) as a driver of economic growth.

Rising inflation and interest rates, economic uncertainty driven in part by geopolitical tensions and financial markets volatility have contributed to reductions in economic confidence – from business and individuals alike.

At an individual level, consumers have traditionally built wealth through superannuation and asset purchases such as houses. Increasingly, mortgage debt is a challenge. Exacerbating such challenges, increased house prices now underpin larger mortgages and, family formation and housing purchases are occurring at increasingly later stages in life.[2,3] While income and interest rates do play a role, the former has been flat[4] and now increasingly appears to be lagging behind inflation, while the latter is on the increase and is forecast to rise[5], adding further pressures to the household purse. As a result, there will be a delay in full repayment of a mortgage which means Australians are increasingly holding mortgage debt at the point of retirement.[6]

Previously, the pay-down of mortgage debt and reduction in other significant expenses (such as private school fees), led to a natural prompt to reconsider the level of life insurance required.



Currently however, ongoing financial commitments are further exacerbated – both in duration and absolute terms – by the documented rise of the so-called *Bank of Mum and Dad (BoMaD)*, as parents seek to help their offspring (where they can) with their own mortgage debt challenges. Some industry sources indicate that 60% of first home buyers are receiving some form of financial assistance from their family and, as of 2019, parental assistance stands at Australia's ninth largest mortgage lender providing some $29bn in funding.[7] In and of themselves, such arrangements can raise issues for the providers of these funds, including financial stress and risk of property loss, as well as taxation and Centrelink issues.[8]

Some of the factors underpinning growing debt burdens, and the extent to which this is impacting the ongoing need for insurance, are outlined below:

**What the numbers show – growing debt burdens:**

Increased house prices, following sustained price acceleration, now underpin larger mortgages – in early 2022, the average home loan size in Australia was $611k,[9] and the average monthly mortgage repayment was $2,460[10]

Starting a family and purchasing a house now occurs at increasingly later stages in life, with 29 the average age for having a first baby[11] and 36 the average age to purchase a first home[12]

This results in a delay in full mortgage repayment, with increasing numbers of Australians holding mortgage debt at the point of retirement

**Impacting retirement and the insurance need:**

Housing costs are high for homeowners with a mortgage, with the average mortgage to income ratio continuing to rise[13]

Extended debt limits Australians' ability to make voluntary superannuation contributions, increasing the risk that they will drain their superannuation to pay off a mortgage at retirement

In combination, this increases their propensity to rely on publicly funded sources of income

The increases in cost of living driven by inflation, house price-led mortgage debt volumes and social trends, in combination, mean that the traditional life events are now occurring later and lasting for a more prolonged period.

While financial advice has been a traditional channel for access to insurance for many Australians (see Section 5.1), this landscape is increasingly complicated by the rise of the advice gap, which has been well documented by other industry participants.[14] The emerging picture of the ever-increasing importance of insurance in a landscape littered with complexity, is even more acute by Australia's ageing demographics.[15]

Further changes to the superannuation industry, which is progressively shifting its focus from accumulation to retirement, are now gaining momentum with the introduction of the Retirement Income Covenant (RIC). As superannuation funds increasingly shift their focus to decumulation, and retirement income strategies, products and related services, insurance will increasingly need to be part of the conversation, if not a part of the solution, to managing risk in retirement.

## 3.2 The impact of the pandemic on individuals and the economy

In last year's report, we covered three key health impacts from the pandemic – long term impacts of the virus, mental health impacts from extended lockdowns, and longer-term health impacts because of other, unrelated and undiagnosed conditions.[16]

In combination, these health impacts from the pandemic have placed – and continue to place – pressures both on households, as well as on Australia's health system. The above developments, taken together, reinforce the role that life insurance plays in the financial system to provide an important source of stability, to maintain and support lifestyles desired, both for individual customers and financial markets.

COVID-19 and other global changes have brought about a new economic reality in Australia. The wide-ranging changes noted above reinforce that increasingly, Australians (whether as individuals, an economy and as a society) cannot afford to do without life insurance and its benefits. Worryingly, however (and perhaps reflecting these financial pressures), studies show that only car, home and contents, and to a lesser degree private health insurance, are now seen as essential by Australians.[17] This is consistent with findings elsewhere in this report, and with a trend identified in the 2021 Value of Life Insurance Report, wherein we noted that the number of Australians purchasing life insurance had dropped since 2018, citing its perceived high cost.[18]

Further, this contrasts starkly against the current reality of insurance in Australia, which we explore within this report: in Australia, we have the quadruple negatives of gender-based gaps in income, insurance cover, superannuation, and in financial literacy:

- **Gender based income gap** — According to the Workplace Gender Equality Agency, in Australia, women earn on average 13.8% less than men.[19] This gender pay gap is influenced by several factors, including women's disproportionate share of unpaid caring and domestic work and greater time out of the workforce impacting career progression.
- **Gender based superannuation gap** — Disparity in income continues to impact superannuation balances, along with the disproportionate time women tend to spend out of the workforce on parental leave. Studies show how it varies – in the years approaching retirement age, the gender superannuation gap can range from 22% to 35%. The median superannuation balance for men aged 60-64 years is $204k whereas for women in the same age group it is $147k, a gap of 28%. For the pre-retirement years of 55-59, the gender gap is 33%, rising slightly in the peak earning years of 45-49 to 35%.[20] Women make up 63% of people earning < $10,000, so women have been over represented in the group of employees not receiving superannuation because they earned <$450 per month.
- **Gender based insurance gap** — At MetLife, within our Retail business, 60% of policies are held by males, with females accounting for only 40%. There are 23.2m superannuation accounts[21], which also have a 60/40 male/female split[22], meaning there is a gender gap in access to insurance inside superannuation – the predominant basis in which mass Australians can afford to hold insurance.
- **Gender based financial literacy gap** — In Australia, only 63% of men and 48% of women understand at least three of the five basic financial literacy concepts. The implications of this are explored in Section 6 – Financial literacy.

These multiple factors each serve to reinforce one another and compound the negative outcomes for impacted Australians and their families as well as for Australian society and the economy.

A more personalised approach to insurance product design is an opportunity to rebalance this inequity. MetLife considers that research in this area to further understand the opportunities will assist in closing the gap.

# 4. Value of life insurance

While value is a simple concept, the value equation is more complex. The 'benefit' in the equation varies based on perspective. To set the scene, this section explores the benefit of life insurance through a number of lenses. Having already identified three key perspectives – individual, societal and economic, we continue to explore these areas with additional research and insights.

## 4.1 Benefit to individuals

Life insurance is an important and valuable tool for securing a person's financial future. Designed to benefit a person or their family if they can't earn a living, life insurance helps ensure they do not suffer the effects of financial stress. This is a fundamental purpose of life insurance.

### 4.1.1 Financial support

In simple terms life insurance first and foremost helps individuals by paying out financial support if a person can't work temporarily or permanently. The reasons for the inability to work are many and varied but the impacts of not working for an extended time on a person's financial situation are universal.

While most people don't want to think about illness or injury that could prevent them from working, the global pandemic (now in its third year) has brought this prospect into focus.

During this time, many people have been financially impacted and as a result have had to directly consider the matter of financial support when unable to work. While the pandemic is different from most situations in which life insurance becomes relevant, it has raised the issue in the public consciousness – an opportunity which should be embraced by the industry given the persistent issue of underinsurance. In fact, research from the US found 32% of consumers say they are more likely to buy life insurance as a direct result of the pandemic.[23] MetLife's Australian research also found that people were more likely to keep or buy life insurance as a result of their pandemic experience.[24] Other MetLife research suggests 1 in 5 people, who have seen a financial adviser, have increased their life insurance cover, and around a third of people who have life insurance say they should increase their level of cover.

### 4.1.2 Meeting customer needs

Looking at claims and environmental trends locally and globally, life insurers are able to provide support and design products that meet the needs of customers. For example, awareness of mental illness and personal wellbeing is increasing in developed countries. In Japan and Korea, MetLife's 360Health program is extended to cover a wide range of preventative treatments such as mental health consultation and dementia screening. In addition, MetLife Korea is planning to launch a new dementia product in 2023.

Another example is in the case of diabetes which is on the rise in the growing middle class in many countries. In Vietnam, the number of diabetes patients doubled in the past 10 years and MetLife launched a new Universal Life product in 2022 to cover Type 2 diabetes. It is the first product in Vietnam that offers diabetes cover and the response has been very positive.

### 4.1.3 Morbidity and mortality

According to the Australian Institute of Health and Welfare (AIHW), Australia has one of the highest life expectancies in the world[25] and most people consider themselves to be in good health. Despite this, one-third of deaths every year are considered premature where the person was under the age of 75.[26]

Chronic diseases are the leading cause of death in Australia. The most common chronic diseases are lung cancer and lower respiratory diseases, cardiovascular diseases, dementia, and cerebrovascular diseases. The AIHW estimated that in 2017-18 almost half of the Australian population had one or more chronic conditions.[27]

Different populations groups are disproportionately affected by certain health conditions. For example, people living with disability, on average, experience significantly poorer health than those without disability. Nearly 1 in 5 Australians – around 4.3 million people – have a disability, and around 1 in 3 people with a disability have severe or profound limitation, impacting their ability to earn a living.

> "Chronic conditions are an ongoing cause of substantial ill health, disability and premature death, making them an important global, national and individual health concern... generally characterised by their long-lasting and persistent effects."
>
> **Australian Institute of Health and Welfare[28]**

**What the numbers show – the case for life insurance:**

**544,000**
injury related hospitalisations annually[29]

**60,000+**
working aged people hospitalised each year due to falls[30]

**52,300**
sports injuries that led to a hospital stay in Australia in 2019-20[31]

**35%**
of households with less than $5,000 in savings[32] and 21% are not saving at all[33]

**1 in 4**
households would only be able to maintain their current lifestyle for a month if they lost their income[34]

**$493.80**
maximum weekly Disability Support Pension (DSP) payment for an individual (including supplements)[35]

**$1,000**
average weekly payout on an IP claim by MetLife

**Around 100,000**
people helped through life insurance payments every year[36]

**$10.5b**
paid out annually in claims across the industry[37]

These figures clearly show the importance of having life insurance. However, Australians remain disengaged from life insurance for various reasons, including the perception that it is inaccessible, complex and expensive. With many people not having enough accumulated savings to cover a period of not working[38], life insurance is a cost-effective way of securing financial protection.

### 4.1.4 Peace of mind

Less tangible but in some cases equally as important is the 'peace of mind' a customer gets from holding adequate life insurance. It gives people the security and confidence that they or their family would not suffer financially if the unexpected happens. Life insurance is a safety net they can rely on and contributes to a sense of financial wellbeing, as does overall financial literacy (See Section 6 – Financial literacy).

MetLife's own research shows that life insurance helps customers feel in control of their financial situation, with 82% saying that having adequate life insurance is an important part of being financially secure and that they feel more confident as a result.[39] Additionally, 4 in 10 say financial concerns are a main driver of mental ill health.[40] These results were mirrored when MetLife repeated the research in May 2021.

According to the Australian Government[41], mental health and financial security are strongly linked. Experiencing a mental illness can add to financial stress, and financial stress can add to a mental illness, causing a self-perpetuating cycle that requires practical strategies (such as holding insurance) to overcome.

With mental health issues on the rise even before the global pandemic, finding ways to relieve stress is more important than ever.

> "Financial safety can bring security and peace of mind. Combined with leisure time and fun activities, it can have a positive effect on wellbeing."
>
> **Head to Health, Australian Government**

### 4.1.5 Value added services

Life insurers provide services which add value to customers in many ways. This varies by company but at its core, services are designed to support the customer beyond just the financial benefit of a claim. This includes prevention, nutrition, return to work and rehabilitation services, mental wellbeing support and educational tools to guide customers on their recovery path (See 360Health: Delivering value by helping our customers extend their HealthSpan).

**360Health: Delivering value by helping our customers extend their HealthSpan**

The objective of MetLife's global 360Health program is to help our customers protect and defend against serious illness so they can live healthier for longer. In other words, we strive to increase their HealthSpan – that is the length of time a person lives without the burden of serious illness.

In Australia, MetLife has recently introduced a new offering as part of 360Health which is aimed at delivering value to those customers who may never make a claim. It is an award-winning digital health platform called Virtual Care. In partnership with Teladoc, 360Health Virtual Care provides MetLife customers access (at no additional cost) to nutrition consultations, medical second opinion services, tailored clinical advice and mental health assistance. Customers do not have to make a claim to be able to access Virtual Care and the service is available to their immediate family members as well.

The aim of 360Health Virtual Care is to support our customers to be better informed about their personal risk of serious illness so that they can be empowered to take proactive steps to prevent falling ill in the future. The need for this support is in high demand in the area of mental health. The strain of the COVID-19 pandemic on peoples' mental health has been well-documented but even prior to the pandemic, mental health conditions made up 20% of Income Protection claims accepted by MetLife. The challenge many people face when it comes to their mental health is accessing high quality personalised advice and guidance in relation to their diagnosis and treatment options when they first experience symptoms.

MetLife's 360Health Virtual Care includes a service called Mental Health Assist which connects MetLife customers with a team of leading Australian mental health professionals, at no additional cost to them. At the end of the consultation, customers receive a detailed assessment of their mental health and associated treatment options to take back and discuss with their doctor. Our experience to date is that 70% of customers who access Mental Health Assist via 360Health Virtual Care receive a modified diagnosis and 76% have their treatment modified in some way. Getting a correct diagnosis and associated treatment plan upfront provides our customers the best chance of avoiding serious illness and having to take time off work. This is an extremely valuable benefit for customers.

### CASE STUDY – Mental Health Assist

A customer who had suffered from anxiety and depression for 20 years, accessed Mental Health Assist because his symptoms suddenly escalated, affecting his ability to function at home and work. He was experiencing feelings of agitation and anger, which led to meltdowns with his family and colleagues, including episodes in which he would become tearful, swear, and lose his temper.

The customer was assessed virtually by a 360Health Virtual Care psychiatrist and diagnosed with generalised anxiety disorder and major depressive disorder. In addition, he was also diagnosed with adjustment disorder, a psychiatric diagnosis characterised by various physical and emotional symptoms, including feelings of stress, sadness, or hopelessness.

The psychiatrist recommended an increased dosage of an antidepressant that he had been taking and he was connected with a psychologist to undertake Cognitive Behavioural Therapy.

Medication and therapy changes were implemented with the customer and his GP, and the impact was immediate. Within a few weeks he was medically cleared to return to full-time work and no longer needed to undergo performance management reviews. In addition, the customer got clarity of the diagnosis and treatment he had not had before, leading to a better outcome and support structure for the customer.

## 4.2 Benefit to society

### 4.2.1 Supporting the local community

Life insurers, like many other corporate organisations, have recognised the need to support and understand the diverse communities they serve. This manifests in two important ways: first, effort is put into ensuring their workforce is as diverse as the company's customer base; and second, diverse communities are supported through partnerships and other community-based initiatives. For example, many organisations across the financial services industry have a Reconciliation Action Plan (RAP), which helps them understand their First Nations customers and ultimately invest in positive outcomes for their communities.

Corporate Social Responsibility (CSR) is now foundational work for most organisations. CSR programs are generally designed to be relevant to the core business, its customers, employees and stakeholders, and take many forms. At a basic level, CSR involves giving back to the community through volunteering and fundraising. More sophisticated CSR efforts will have a more holistic approach that addresses how the organisation supports people, customers and community taking into consideration environmental factors, business sustainability, disadvantaged communities, and responsible investing.

At MetLife, we have implemented a range of initiatives and engaged in partnerships focused on the areas of financial health, mental health, the environment and the community. This includes a partnership with the Royal Botanic Gardens that provides our employees with Indigenous cultural awareness training and volunteer opportunities such as community greening for social housing tenants. As part of our RAP commitments, we are also working with Indigenous recruitment organisations Patonga and Real Futures to address the Aboriginal and Torres Strait Islander representation within our organisation.

In 2022 MetLife has embarked on a partnership with Australian Institute of Superannuation Trustees (AIST), which includes work on supporting underserved communities and educating on the role of life insurance for AIST's leading profit-to-member trustees and superannuation fund members.

## CASE STUDY – MetLife 2030 Diversity, Equity and Inclusion Commitments[42]

In March 2022, MetLife announced a range of 2030 Diversity, Equity and Inclusion (DEI) Commitments, including US$2.5 billion investment in addressing the needs of the underserved and underrepresented. The extensive package of DEI commitments are designed to augment MetLife's sustainability efforts, which are anchored to its business strategy and informed by the United Nations Sustainable Development Goals.

"MetLife's purpose calls on us to build a more inclusive and equitable world for all our stakeholders," said MetLife Global President and CEO Michel Khalaf.

MetLife has pledged to deliver on the following commitments by 2030:

1. Originate US$1 billion in investments that advance firms owned by women, minorities, and disabled persons.
2. Reach US$5 billion in spend with diverse suppliers and report annually on the economic impact of this spend.
3. MetLife Foundation (through which MetLife partners with not-for-profit organisations to raise funds and make a positive impact in the community) has committed US$150 million in funding to support underserved and underrepresented communities.
4. Commit 800,000 employee volunteer hours with a focus on DEI/underserved communities.
5. Provide solutions and insights to address the needs of the underserved.
6. Support research that advances understanding of DEI issues.
7. Continue to advance workforce diversity by consistently achieving top quartile positioning across each ethnically and racially diverse category in the U.S. and of female officers globally.

In 2021, MetLife Australia was the only insurer to be certified an inclusive workplace by Diversity Council Australia.[43]


### 4.2.2 Informing customers

In 2021, MetLife was one of eight major insurers that came together to provide reassurance to Australians about the status of their life insurance coverage after they received the COVID-19 vaccination. Driven by insights that people were concerned that receiving the COVID-19 vaccine would affect their ability to claim on their life insurance, a campaign was launched to support vaccinations and to protect the community.

MetLife's research indicated that around 1 in 3 people were unsure of the impact of having the vaccine on their life insurance cover and 6 in 10 were unaware that life insurance covered them for any serious side effects of approved COVID-19 vaccines.

The campaign known as 'We've got you covered', was designed to give Australian's confidence that once vaccinated, their life insurance would continue to protect and cover them as it had always done. The cooperative campaign delivered significant awareness of insurance and demonstrated the industry's support for vaccination, backing the Government in driving vaccination acceptance.

we have you COVERED

October 14th 2021

The Hon. Scott Morrison MP
Prime Minister
Parliament Hose
Canberra ACT 2600

By email: craig.evans@pm.gov.au

Dear Prime Minister

Confronting the challenge of COVID-19 requires the entire Australian community, including business, to pull together and each do what we can to support the rollout of Australia's vaccination program. Australia's leading life insurers recognise this and are uniting to launch a new campaign that we hope will assist in supporting increased vaccination rates across the nation.

The *We Have You Covered* campaign launches this week in national media and is intended to support the national vaccine program and provide Australians with confidence their life insurance products will continue to protect and cover them as they have always done once they are vaccinated. While there is a range of reasons Australians hesitate about the COVID-19 vaccination, we know from listening to our customers and the community that some harbour fears or concerns that being vaccinated will impact their ability to claim under their life insurance, or access the benefits of life insurance now and in the future.

As the campaign makes clear, approved COVID-19 vaccines do not affect any life insurance customer's ability to claim from an existing life insurance policy. Nor do they affect an uninsured person's ability to access life insurance in the future. Importantly, in the rare case an approved vaccination causes serious side effects, an insured person's existing life insurance will also be there to support them.

Underlying these messages is the broader goal of supporting the national vaccination campaign. Our industry is proud to add our voice to those already taking a stand on this important issue. We hope that our contribution will support our communities feel more confident, and be healthier and more prosperous.

More information on the campaign can be found at the campaign website at www.wehaveyoucovered.com.au, or by contacting James Connors at james.connors@tal.com.au or by telephone on 0484 083 208. Alternatively, please reach out directly to any of the signatories of this letter – we would be pleased to further discuss our initiative, and what more we could do to support the community as it recovers from the effects of COVID-19.

Yours sincerely,

Damien Mu, CEO and Managing Director, AIA Australia and New Zealand

Simon Swanson, CEO, ClearView

Richard Nunn, CEO, MetLife

Rodney Cook, CEO, MLC Life Insurance

Megan Beer, CEO, Resolution Life

Brett Clark, Group CEO and Managing Director, TAL

Justin Delaney, CEO, Zurich Australia and New Zealand

### 4.2.3 Understanding diverse communities

The industry has long known that a one-size-fits-all approach does not serve customers effectively and leaves particular groups at risk of increased underinsurance. We know that understanding the communities we serve helps us develop better products to meet their needs. With this in mind, a number of initiatives have been developed to help improve understanding and ultimately customer outcomes. Two such examples follow.

#### LGBTQI+

In early 2022, the life insurance industry, through the InterInsurance Working Group, joined with the Victorian Pride Lobby launched a critical piece of research, called Worth the Risk, which explored the experience of LGBTQI+ customers in relation to insurance. MetLife along with other life and general insurers surveyed LGBTQI+ customers to understand their insurance experience, with a view to helping insurers understand the unique vulnerabilities of LGBTQI+ customers and making actionable recommendations.

The Worth the Risk Report provides some interesting insights:

- 48.8% of respondents agree that insurance companies generally treat them fairly (large neutral response at 37.4%)
  - Trans respondents reported lower rates of agreement with this overall statement: 39.7%
- 57.0% of all respondents believed insurance companies are making an effort to understand and respect LGBTQI+ people
  - This increases significantly to 76.4% for trans respondents
- A majority of respondents (51.8%) have faced discrimination or exclusion based on their sexual orientation, gender identity, sex characteristics or other factors when applying for an insurance product
- Almost 6 in 10 respondents (57.3%) have experienced intrusive questioning relating to their LGBTQI+ status or related factors when seeking insurance
- The most important way that insurance companies can improve the inclusivity of their products is ensuring staff undertake training on LGBTQI+ inclusivity (3.80 out 5)
- The least important is by ensuring their communications and marketing materials include depictions of LGBTQI+ people (1.90 out of 5)

The results from this research will be used to guide the sector on how to better support LGBTQI+ communities and ensure they can access life insurance with confidence.

MetLife's Diversity, Equity and Inclusion (DEI) Committee are reviewing the insights and integrating them into MetLife's DEI Policy, as well as sharing with key stakeholders to identify opportunities to improve the experience of our customers.

### First Nations people

Research from First National Foundation[44] found only 64% of Aboriginal and Torres Strait Islander people had a superannuation account. Nearly half of the respondents in the survey (48%) said they had less than $50,000 in their superannuation account, which would likely be insufficient at retirement. This is further exacerbated by geographic location with only 42% of First Nations people in remote areas with a superannuation account compared to people in urban (69%) and regional (68%) areas. Two-thirds of women and 48% of men had a balance of under $50,000. This is another intersection with the superannuation gender gap.

The same research reinforced the connection between financial resilience and engagement with financial services products such as superannuation. 88% of respondents who were classified as experiencing 'severe financial stress or vulnerability' (very low levels of financial resilience) said they did not have a superannuation account. The proportion of respondents who have superannuation accounts increased as levels of financial resilience increased, such that 85% of participants with high levels of financial resilience (known as financial security) said they have a superannuation account.

Understanding the unique needs of First Nations people allows MetLife to find ways to better serve these customers and help them navigate superannuation and life insurance. MetLife is engaging with a number of organisations to identify ways to make a positive impact.

### 4.2.4 Building trust

The 2018 Banking and Financial Services Royal Commission shined a spotlight on poor behaviours in the financial services sector. This has driven significant reform to ensure better outcomes for customers and service providers are held to account. Trust however serves as a barrier to access to products such as life insurance.

In Edelman's Global Trust Barometer 2022[45], the financial services industry in Australia had slipped another two points to 48. The global pandemic has exacerbated the gap in trust between financial services and businesses in general, while consumers are increasingly expecting organisations to take a stand on social issues and have a positive impact on society.

Indeed, MetLife's own consumer research in 2019, which surveyed almost 15,000 people across the US, LATAM and Asia, indicates a sharp spike in consumer scepticism, along with a continued hunger for trust and authenticity, and for organisations to play a larger role in society. Consumers are seeking financial services companies that are 'honest and transparent', with this feature topping the list of important characteristics, even ahead of 'helps me make smarter financial decisions'.

Values alignment is a significant factor for customers in choosing a financial services partner (number 1 for 37% of respondents), which means insurers need to demonstrate those values and their positive impact on communities clearly to customers and business partners.

In addition to supporting communities, MetLife has focused on being transparent with customers, making sure they are informed and supported. A dedicated Claims Manager and regular communications help to ensure customers understand what is happening with their claim. Our claims philosophy and internal claims assessment processes ensure our customers are able claim quickly and easily at their time of need. We close the loop on feedback to ensure we are always working to improve the customer experience. These are all examples of how we are building trust directly with our customers.

**MetLife and BFO – building trust in the financial services industry**

The Banking and Finance Oath (BFO) is a unique, independent organisation whose purpose is to improve our society by raising the moral and ethical standards of the banking and finance industry through the implementation of the Oath. BFO aims to reassert the ethical foundation of the industry, going above and beyond regulation and laws.

MetLife has a long-standing commitment to BFO. We run an annual campaign to engage our people with the guiding principles of the BFO. 2022 marked the fourth year of our annual 'Take the Oath' campaign. Taking the Oath gives our people courage to speak up when required, setting an example to lead positive change in our industry and do the right thing by our customers.

## 4.3 Benefit to the economy

The life insurance industry benefits the economy in a number of ways:

### 4.3.1 Responsible investing

The UN Principles for Responsible Investment (PRI) is an international organisation that promotes the use of Environmental, Social, and Governance factors (ESG) in investment decision-making. This is becoming increasingly important for organisations, as consumers are seeking transparency on investment decisions from their superannuation funds, insurers and other financial institutions. As of October 2021, signatories to the UNPRI were responsible for over US$100 trillion in assets worldwide and include some of the world's largest and most influential investors[46], including MetLife, which manages US$642 billion in assets globally.[47]

This is an area in which the market is moving rapidly to meet consumer expectations and companies demonstrating leadership are finding strong growth opportunities. According to Cornell, $1 out of every $4 invested involves ESG and these investments have weathered the pandemic storm better than traditional investments. In the first year of the pandemic, in the US ESG funds rose between 27.3% and 55%. On the other hand, the S&P 500 only rose 27.1%.[48]

**MetLife invests responsibly**

In 2019, MetLife became a signatory to the UN PRIs.[49]

Even before this, MetLife had a long history of responsible and impact investing with a focus on four core areas:

1 Green investments

2 Impact investing and affordable housing

3 Infrastructure

4 Municipal bonds

In 2022 MetLife has US$74.5 billion in Responsible Investments[50], which includes green energy, infrastructure and affordable housing.

The 'Who Cares Wins' Report[51] published by the UN Global Compact, which surveyed 18 financial institutions from nine countries with total assets under management of over US$6 trillion, sought to increase awareness of ESG investing, and made recommendations on why and how companies could integrate it into their existing investment approach. The report suggests that companies that perform better with regard to ESG issues can increase shareholder value, improve brand reputation and contribute to the sustainable development of the economy. On how to better integrate ESG into investing decisions, the report encourages financial institutions to formulate long-term goals and introduce organisational learning and change processes.

> "Companies that perform better with regard to these issues can increase shareholder value by, for example, properly managing risks, anticipating regulatory action or accessing new markets, while at the same time contributing to the sustainable development of the societies in which they operate."
>
> **UN Global Compact**[52]

These recommendations prompted greater focus on ESG investing by major corporations in the financial services industry. Indeed, there has been a significant increase in awareness, uptake and impact of ESG over the past three to five years, particularly in Asia.[53] In 2020, there were record ESG inflows and more ESG product launches than ever seen before.[54]

According to a 2021 investor survey, investor demand, which is driving the rise of ESG investing, stems from heightened social awareness (75%) and the fact that ESG investing has now reached critical mass among mainstream investors (50%).[55]

In Australia, responsible investment represented 40% of total assets managed in Australia in 2020, up from 31% in 2019.[56] The growth in the Australian responsible investment market, including the growth of Responsible Investment assets under management as a proportion of Total Managed Funds, mirrors global trends. The Responsible Investment Association Australasia, in its Financial Adviser Guide to Responsible Investment Report (October 2021), highlighted increased demand for ethical investment options.

Apart from consumer awareness and expectations, drivers include increasing focus on ESG issues by finance sector regulators and greater acceptance that ESG factors materially impacting investment risk and returns. Regulatory interest on the topic in Australia contributed to the release and finalisation in 2021 of the APRA Prudential Practice Guide (CPG 229) on managing Climate Change Financial Risks for banks, insurers and superannuation trustees.

MetLife's approach has long been built on the understanding that ESG factors have an impact on investment performance and are important considerations to effectively manage risk and achieve MetLife's investment objectives. These also align to our values as an organisation. In addition to ESG investment policy, MetLife has a long history of responsible and impact investing with a focus on green investments, affordable housing, infrastructure and municipal bonds.

### 4.3.2 Impact on the health system

The significant number of annual injuries and the prevalence of chronic illness (refer to 'Morbidity and mortality' section) puts a significant strain on the health system.

Multimorbidity makes treatment complex and long term, requiring ongoing management and coordination of specialised care across multiple parts of the health system. This places a heavy demand on Australia's health care system and requires substantial economic investment. Prevention and better management of chronic conditions to improve health outcomes is a key focus of the Australian health system.

At MetLife we know this is an area where we play a significant role in not only helping people return to health after an injury or diagnosis of illness, but also in prevention and early intervention. We have seen better customer outcomes through initiatives focused on return to health as well as active health management.

MetLife's 360Health sits alongside the insurance offering, offering value to customers before the claims process begins. The program ranges from early intervention initiatives to support once a customer is on claim to help them get back to health. We know that the longer a person is not working, the less likely they are to return to work and more likely it is they will have a secondary health condition including higher rates of mental ill health.

360Health is designed to deliver additional value to a customer's life insurance offering by providing comprehensive support to prevent and manage serious illness through access to expert global knowledge and specialised medical resources. The program offers curated health and wellbeing initiatives, tools, support services, information and education, via an omnichannel approach, to meet the different needs of all customers. The value of preventive health management is also explored in ASFA's Future of insurance through superannuation report (See Section 4.3.4 – ASFA's assessment of economic benefits of life insurance).

### 4.3.3 ASFA's assessment of economic benefits of life insurance

In June 2022, MetLife and key insurers commissioned an independent report with the Association of Superannuation Funds of Australia (ASFA) and Deloitte on the role, benefits and potential enhancements for insurance in super, titled The Future of Insurance in Superannuation.[57] This report confirmed what MetLife found in the 2021 Value of Life Insurance Report, especially with regard to the positive impact of life insurance on the economy and the need for the accessibility of insurance to continue within superannuation.

**ASFA's assessment of economic benefits of life insurance – key findings**

Almost
**10 million**
Australians have a least one type of insurance (life, TPD or IP) through their superannuation

**$6.6 billion**
is paid annually in death, total and permanent disability, and income protection benefits

In 2021 nearly
**50,000**
claims were paid out to members

Average payout of
**$132,000**

Payout ratio of
**80 - 95%**
- the likelihood of the claim being accepted

Increased access to early intervention is estimated to save
**$126 billion**
in social and other costs of unemployment

The research found 11% of IP insurance claimants who access rehabilitation treatment and services are likely to return to work where they otherwise would not have. This treatment intervention is estimated to result in members returning to work on average five weeks earlier.

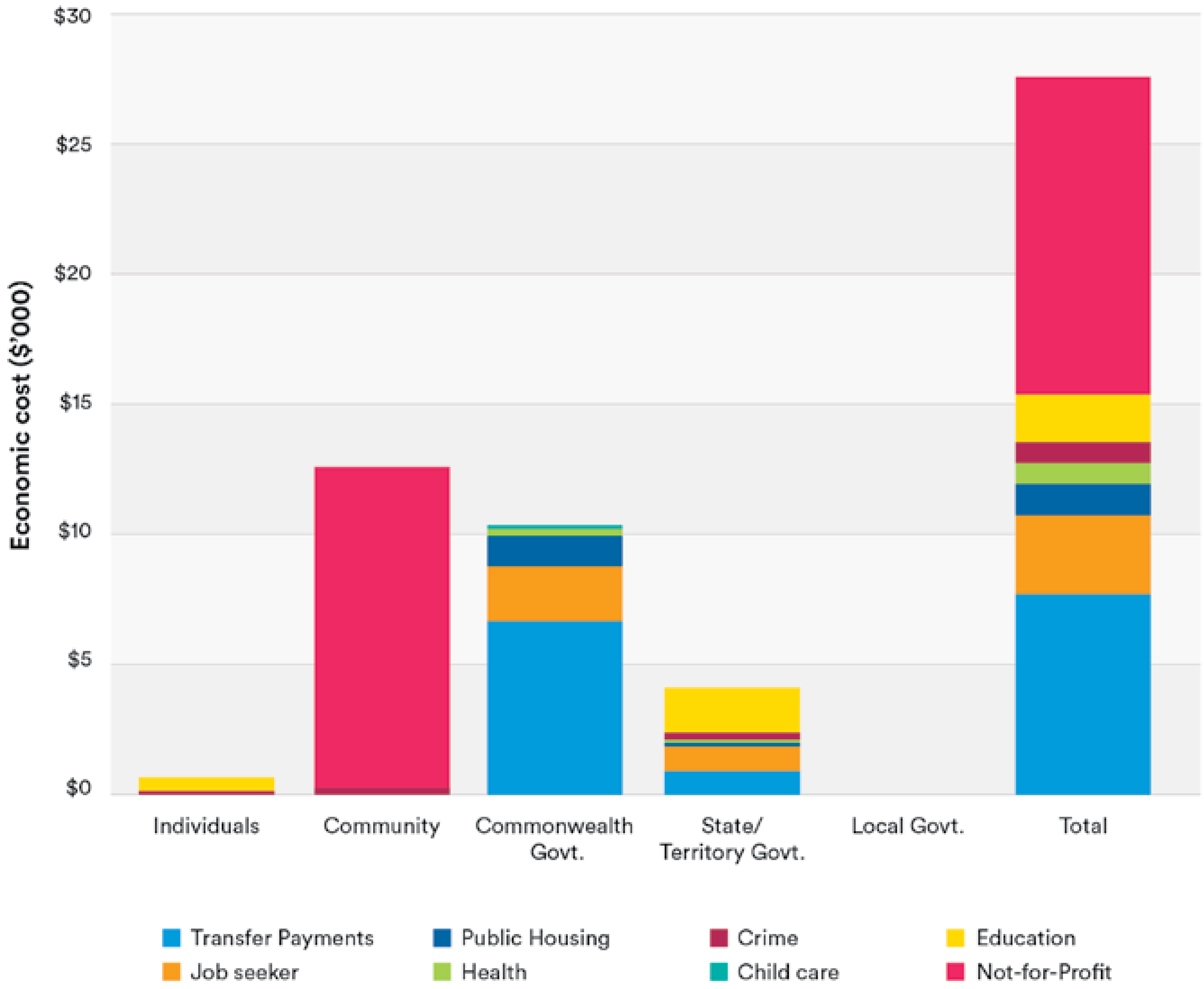
Should legislative change be made that allows for broader access to treatment by way of funding through the life insurance sector this could assist an estimated 29,300 members to return to work. Once transitions back to the workforce and retirement are accounted for, this would provide an additional 4,400 full-time equivalent workers to the Australian economy by 2062, boosting GDP by around $1.1 billion in that year.

In the report, Deloitte Access Economics estimated the total cost of unemployment is around $97,000 per unemployed person per year, taking into consideration lost income and superannuation, and a variety of support costs including unemployment benefits.

After excluding the impact of unemployment on labour income and superannuation and subsequent taxation, the cost to the community of unemployment is estimated to be approximately $27,500 per person.

With customers getting an average payout of $132,000 and high claims acceptance rates, these results highlight the value of life insurance within superannuation.

**Broader economic cost of an unemployed person by category**



# 5. Life insurance in Australia

## 5.1 Access to life insurance

In Australia, there are four main ways that people can access life insurance. They are via a financial adviser, their employer, through their superannuation fund and direct from the insurer. These are explained in further detail in the figure below.

The MetLife 2021 Value of Life Insurance report outlined research which demonstrated how important financial advisers are in helping customers understand the importance of life insurance. Following the 2018 Banking and Financial Services Royal Commission, a raft of reforms was introduced, including:

- Annual client consent requirements for fees;
- Advisers having to pass additional exams conducted by the Financial Adviser Standards and Ethics Authority;
- Government-mandated restrictions on life insurance payment options for customers.

MetLife, and the broader sector, has supported measures aimed at enhancing consumer protections. The current compliance regime has however, forced many advisers from the sector. The number of registered financial advisers in Australia decreased through the 12 months to June 2021 to 19,382 – a reduction of 9,000 since 2018 and a five-year low.

In addition, financial services training data from 2016 to 2020 (program enrolment and program completions) show steep declines – falling by 68% and 63% respectively over the period, as did the program completion success rate, which declined from 60% in 2016 to 37% in 2020.[58]

These reductions have a very real effect on the financial wellbeing of Australians of retirement age. A reduction in the number of financial advisers has three key effects:

- Firstly, at a time when Australians are looking to retire with savings levels greater than ever before, their ability to access professional financial advice is being diminished.
- Secondly, for those Australian's able to access advice, the price of that advice is increasing simply because of the scarcity of advisers.
- Thirdly, without quality financial advice, many Australians have inadequate life insurance, leaving their assets and incomes vulnerable if they suffer misfortune.

MetLife has worked with advisers, regulators and Parliamentarians to detail how a shortage of financial advisers undermines the intent of Australia's superannuation settings, exposes ordinary Australian's to increasing financial risk, and reduces broader financial literacy.

MetLife will continue this work to ensure that our policymakers understand the long-term impacts of our current policy settings.

Recent legislative changes have required superannuation funds to act only in the "best financial interests of the member". Whilst the intent of this change appears sound, the reality is that it has forced superannuation funds to painstakingly document and justify expenditure incurred for the broader benefit of the fund. As an example, all advertising and marketing costs now need to be demonstrated to be in the best financial interests of members. In this particular example, the rationale for such activity is that more members in a fund will reduce the marginal cost per member of administering the fund – clearly a good outcome for members. In this context, the new arrangements applying to superannuation funds go far beyond what is required of corporations in respect of their shareholders.

MetLife continues to work with superannuation funds to identify unintended consequences of this, and similar, policies and raise them with Government stakeholders.

## 5.2 Regulatory reform

Since we released the 2021 Value of Life Insurance Report, the landscape for life insurance has changed remarkably. In 2021, the Government rolled out some key legislative changes in the superannuation, life insurance and the advice industries, including 'stapling' members to their current superannuation fund, Design and Distribution Obligations (DDO), disability income reforms and more. These changes were intended to ensure the industry provides better designed products, with pricing sustainability, and in the best interest of consumers.

The industry has supported changes that have led to better customer outcomes. Some, however, have resulted in unintended consequences that could impact peoples' access to insurance; others have led to opportunities that the industry could seize upon to boost peoples' engagement with their insurance.

### 5.2.1 Default insurance and stapling

In the arguments around superannuation reforms, the government has mainly focused on preventing the erosion of members retirement savings and making sure fund trustees put their members best interests at the forefront of their decisions.

Default life insurance has been caught up in this reform.

One such reform is the Your Future Your Super (YFYS) changes that came into effect on 1 July 2021 with account stapling changes starting on 1 November 2021. Superannuation account stapling, where an employee's current membership of a superannuation fund would follow them to a new employer, ensures members do not end up with multiple accounts, paying multiple fees and thus eroding their retirement savings. An unintended consequence of this reform means members will also be stapled to any default insurance associated with their superannuation and will retain that coverage as they change employers and occupations.

For some, they might be stapled to a fund after leaving high school, with default insurance that may not be appropriate after career changes, for example into high risk occupations where insurance is not broadly available or where disability definitions are restrictive. This means the default insurance arrangements are no longer relevant and the member may not be eligible to claim.

MetLife contributed to industry discussions and final development of an enforceable standard to end the use of hazardous occupations exclusions in all default cover for life insurance, Total and Permanent Disability (TPD) and Income Protection insurance in MySuper and Choice products. This Financial Services Council (FSC) standard will take effect from 1 January 2023. FSC's analysis show that this will remove 87% of all occupational exclusions and occupation-based restrictive disability definitions that exist by that date, significantly increasing the number of members eligible.

Other aspects of the YFYS reform include an annual performance test for superannuation funds, best financial interest test, and establishing a new interactive online YourSuper comparison tool to help people decide which MySuper product best meets their needs.

There is evidence that members who take an interest in their insurance are 'stickier', that is, are more engaged with their superannuation, rate their superannuation fund higher and are more likely to recommend their fund.[59] If a member increases their insurance, they are 2.5 times more likely to recommend their super fund.

Therefore the YFYS reforms provide superannuation funds with an opportunity to engage with their members about their contributions and the insurance they hold.

### CASE STUDY – Early intervention

A superannuation fund member was badly injured as a result of a cycling accident. The customer spent three weeks in hospital with a fractured collarbone and scapula, broken ribs, fractured vertebrae, a lacerated lung, and severe nerve damage to their hand. Following their accident and prior to submitting a claim, the customer contacted MetLife.

After being discharged from hospital, there was still a long recovery ahead for the customer. A MetLife Recovery Specialists reviewed the case and identified that the member was likely to be off work for several months and planned the member's physical and mental rehabilitation accordingly. The services offered to the member included a gym membership, an exercise physiologist and counsellor to support their mental health. These services worked in partnership with the member's physiotherapist to make sure they were complementary and maximising the member's recovery.

The member felt the services provided helped their recovery and minimised the long-term impact of the accident, saying MetLife "…managed the claim and checked what financial support I needed until I could get back to work. I didn't have to manage anything. It all just happened in the background. And I was going through a lot. Trying to manage the claim and attending all the appointments, doing rehab and worrying about having enough money to support the family was a burden in its own right, let alone having to worry about the coordination of all the claim activities. That was one of the big positives I got from the whole process."

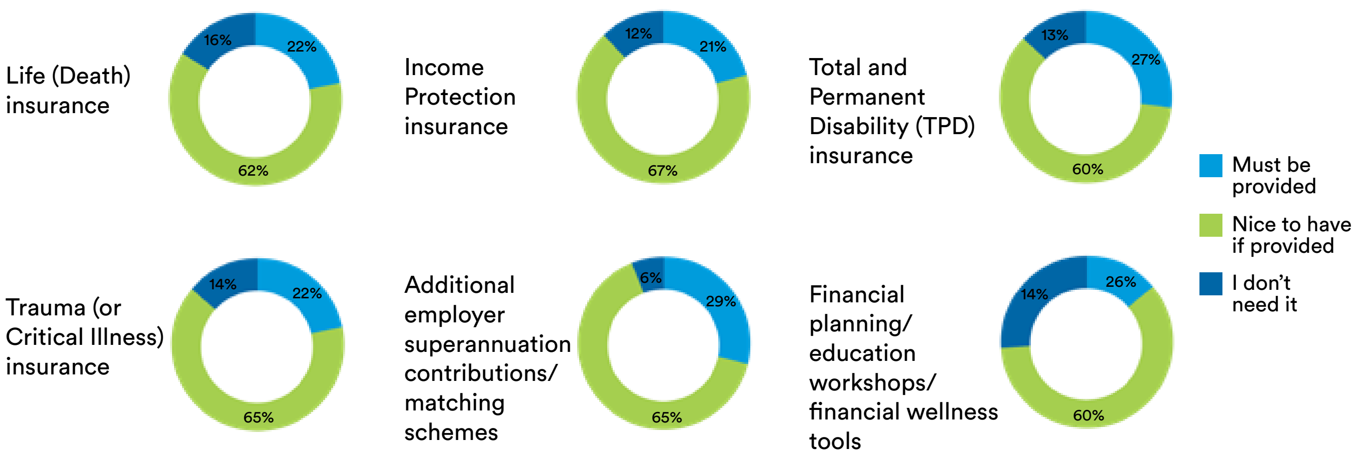
About the support provided by MetLife, the member said, "I don't think I would've got to where I am now, and I believe I would have had an ongoing disability."

### Employer funds in the era of 'stapling'

The COVID-19 pandemic has caused many employees to re-evaluate their lives and what they want from work. This has employers looking for new ways to attract and retain talent.

In MetLife's 2020 Financial Wellness Report[60], we found that employees who are on track with their financial goals are more productive (76%), likely to still be working for their organisation in 12 months' time (75%), satisfied with their job (72%), committed to their organisation's goals (70%) and engaged (69%). Additionally in MetLife's 2020 Employee Benefit Trends Study, 74% of employees said "financial planning tools to help them understand their options and achieve their financial goals" is a must have or nice-to-have employee benefit.[61] Yet only 13% take advantage of employer programs.

**Attitudes towards benefits provided by employers based on needs**




These findings point to an opportunity for employers to differentiate themselves through a financial wellness program that supports employees in their financial decisions to encourage a more engaged, satisfied and loyal workforce – one that thrives in both work and life. One part of such a program would include protection such as insurance coverage. Many employers already provide benefits through avenues like corporate superannuation funds, where they make additional contributions, and provide life insurance inside superannuation, with some covering the cost of premiums for their employees. Employees also have the option to increase their insurance coverage based on their individual needs and/or speak to a financial adviser about their options.

Post-YFYS reforms, where employees already have a 'stapled' superannuation fund, employers are required to step into the role of informing employees about superannuation fund offerings as part of the on-boarding process, supplemented by employees using the MySuper comparison tool to make an informed decision. MetLife has found that it is even more vital to work with employers on the education of superannuation and the value of life insurance at these points in time, as well as to provide flexibility in offering stand-alone insurance products as part of an overall financial wellness program.

Whichever path an employer takes, the YFYS reforms provide an opportunity for them start the conversation with employees around financial wellness and highlight the benefits available to them as part of a holistic financial wellness program. It's a space that is ripe for superannuation funds and insurers to support employers to play a role to attract and retain talent during the 'Great Reshuffle'.

### 5.2.2 October 2021 reforms

2021 saw the introduction of Design and Distribution Obligations (DDO) and changes to Individual Disability Income Insurance (IDII) contracts to make sure products are targeted at the right people, as well as address product and pricing sustainability issues. The bulk of the changes took effect in October 2021 and provided the industry with an opportunity to go beyond compliance and deliver product simplification.

New breach reporting rules also commenced at this time, expanding the instances when organisations must report breaches (e.g. reporting investigations into breaches), and requiring them to provide more information about breaches lodged.

In addition, new regulatory guide RG 271 Internal Dispute Resolution required businesses to proactively analyse complaints data and identify systemic issues, and use them to drive continuous improvement in complaints handling and business operations.

Finally, the longstanding duty of disclosure that applied to people applying for underwritten cover was replaced with the more consumer-friendly duty to take reasonable care not to make a misrepresentation. This new duty puts the onus on the insurer to make sure that underwriting questions are clear and well-targeted, rather than requiring the customer to surmise what information will be relevant to an insurer's decision.

In addition, customer disclosure provisions have been rewritten to improve customer understanding. Critically, MetLife also takes a case-by-case approach to assessing whether a customer has taken reasonable care not to misrepresent their circumstances when answering underwriting questions. As part of our approach, we provide all staff with ongoing diversity and inclusion training, as well as a clear expectation that MetLife responds to circumstance with empathy. We continually monitor our interactions to inform continuous improvement. Overall, MetLife pays more than 98% of claims lodged.

### 5.2.3 Design and Distribution Obligations

The new DDO requirements aim to help consumers obtain appropriate financial products. They require product issuers (e.g. insurers) and distributors (e.g. dealer groups, corporate and superannuation funds) to determine the needs of customers, design products that are suitable for them and distribute products in a targeted manner.

As part of the DDO regime product issuers must prepare a Target Market Determination (TMD) for their products which, alongside the Product Disclosure Statement (PDS) will be used to inform consumers of the various aspects of these products.

Distributors must not distribute financial products caught within the regime unless a current TMD is in place. Distributors must also take reasonable steps to ensure that distribution is consistent with the TMD and notify the product issuer of any significant dealings which are not consistent with the TMD.

MetLife's approach was to conduct a gap analysis to make sure retail and choice products were compliant with the regime, prepare a TMD that meets the requirements and a process for reviewing TMDs. MetLife proactively communicated regulatory change with trustees and advisers. MetLife also worked closely with superannuation trustees to develop the insurance components of their TMDs and review trigger measures, as well as with advisers to make sure TMDs are provided in the sale of retail products. Internally, staff were also trained on DDO requirements.

The DDO requirements ensure a consumer-centric approach to products. Insurers who took a robust approach when preparing their TMDs would have applied a customer lens across the full product lifecycle to understand how the product meets customer needs in the target market. It should also inform how marketing, sales and distribution can place the right products into the hands of the right customers, and how product design and distribution can be continuously improved.[62] This helps maximise the value of the DDO process, simplifying products while anticipating future regulatory and customer expectations.

### 5.2.4 Income Protection insurance

To address losses experienced by the Individual Disability Income Insurance (IDII) contracts over the last few years, APRA intervened and mandated changes including banning new agreed value policies (since April 2020), changes to product design and claims management, and better data collection to improve sustainability.

Insurers responded by developing new, more sustainable products that were aligned to the original intent of such insurance – to provide a financial safety net when someone is injured or disabled while encouraging an appropriately timely return to work. It was an opportunity to speak to financial advisers, dealer groups and consumers around current offerings, what could be improved and what they wanted in a product.

In this climate, insurers have had to balance premium pricing for a cover appropriate to the services provided and risk undertaken while being competitive against competitors' pricing for similar products.

For some, a redesign and reprice of their IDII products has meant creating not only a competitive product that is fit for purpose, but a sustainable one as well.

It's still early days with IDII changes and APRA says it remains a key supervision priority for the sector in 2022.[63] The regulator notes it will not hesitate to increase supervisory adjustments to capital requirements if the industry reverts to previous unsustainable market practices.

APRA has continued to emphasise to insurers that it will focus heavily on the sustainability of IDII. In March 2022, APRA wrote to insurers indicating that its intention to introduce five-year policy terms would be suspended for a minimum of two years. In the interim, insurers will be required to demonstrate better engagement with customers in order to improve levels of sustainability. APRA has emphasised "*…premiums should be set with the objective of providing policyholders with a reasonable degree of stability over the lifetime of their products…*".

In response to these issues, MetLife has increased engagement with advisers to ensure that levels of cover for individuals are more closely aligned with the customers level of comfort with different levels of risk. MetLife also has a range of financial literacy initiatives under way which will further inform these engagements.

An issue directly affecting the volatility and sustainability of IDII is price discounting by insurers. While a heavily discounted premium for year one of a policy may hold an initial attraction to a customer, the "bill shock" of significant premium escalation in subsequent years can mean customers abandon IDII insurance altogether, leaving them in a riskier situation.

MetLife takes the view that this form of discounting is counter-productive for the customer, and contributes to greater premium volatility in the sector. Accordingly, MetLife prices premiums prudently to ensure longer term premium stability for customers.

Another issue causing IDII products to become unsustainable was, among other things, the blow-out in claims durations, fuelled particularly by mental health claims. This is an area that life insurers can tackle now or risk a continued deterioration in their claims experience. (See "Mental health claims ripe for early intervention").

The argument for early intervention for customers has been a long-running one, as covered in the 2021 Value of Life Insurance Report and in ASFA's *The future of insurance through superannuation* research[64] (see Section 4.3.3). From 2018 - 2021, MetLife's early intervention claims management program saw 31% of people achieve a full return to work during the waiting period. Of the 54% that proceeded to claim, those customers experienced reduced cycle time from notification to decision. Additionally, 46% of them achieved a full return to work.

A broader analysis of claims data by Ernst & Young (EY) in September 2021 showed for claims between 6 to 12 months' time lost, rehabilitation improved return to work outcomes, and that more timely intervention (under 13 weeks) can improve it by 3% to 5%.[65] Outcomes are considerably poorer the later rehabilitation is offered and taken up. The quality and nature of the rehabilitation and return to work benefits within new IP products can therefore be a differentiator for insurers in the eyes of customers. Successfully helping people return to work also reduces the cost of claims (between 4% to 9%, according to the EY analysis), keeping premiums more affordable and contributing to the sustainability of the product in the longer-term.

These changes are still washing through the life insurance, superannuation and advice industries, and time will tell if they fulfil the government's intention. Nevertheless, the industry stands ready to work with the government to ensure the financial services sector remains sustainable and continues to protect the future of all Australians.

### Mental health claims ripe for early intervention

In 2020, an FSC/KPMG analysis pointed to an increase in claims costs being due to people remaining on claim for longer (average time on claim increased 36% in 2018 compared to 2013), rather than a significant increase in the numbers of new claims.[66] It found mental health claims in 2018 were 53% higher than in 2013, with a 125% increase in incidence of claims among men due to mental health. Importantly, for most causes of claim, the average claimant was back at work within 12 months; whereas for mental health claims, claimants were taking 18 months to return to health and work.

Evidence shows that mental health claims is an area where early intervention by life insurers would be especially beneficial, where severity and recovery times can be significantly reduced. Early intervention has been shown to have a much larger impact on mental health claims and can improve return to work by 20% when engaged early.[67]

At MetLife, any customer experiencing mental health concerns who is identified for early intervention is accepted. MetLife also has in place a number of initiatives and improvements to quickly identify and support customers experiencing mental health challenges:

- Engaging claims staff with mental health and allied health qualifications.
- Ensuring staff are trained in SuperFriend's "Person-centred communication" so they have the ability to help customers get the care they need, when they need it, by asking the right questions. Part of the training also includes helping customers be more active in their care so they get the services appropriate for their needs.
- Providing claims staff with access to specialist medical experts, including clinicians with various symptom-specific and/or condition-specific areas of specialty, for advice on complex matters.
- MetLife's Chief Medical Officers (CMOs) provide expert medical opinion and act as a referral source on individual IP or TPD claims cases. CMOs assist MetLife Case Managers to understand the Life Insured's condition and provide medical expertise, when required.
- Access to Health Connect, an online tool which provides a curated suite of health content created by doctors, hospitals and peak health bodies via an online portal.

These are important measures to have in place, which has been highlighted by the COVID-19 pandemic. The life insurance sector is facing a period of uncertainty in the claims experience, especially around mental health. Early evidence shows that the COVID-19 pandemic and measures such as nationwide lockdowns led to increases in people seeking mental health support. A report from the AIHW noted "heightened usage" of mental health services and an increase in psychological distress in 2020 and 2021.[68]

The Australian Bureau of Statistic's National Health Survey 2020-2021 found the most prevalent chronic condition experienced in Australia in 2020-21 was mental and behavioural conditions (20.1%), with anxiety and depression the most common (12.7% and 10.1%).[69] The highest incidence of anxiety was in the 15-34 age group, and depression was also high in this same age group as well as 45-54 year olds.

The long-term impact of COVID-19 on IP and TPD claims experience remains "highly uncertain" as historically impacts from employment, such as burn out and work-related stress, can take up to 18 months to translate to increased claims.[70]

In this area especially, legislative reforms to allow life insurers to support customers early would have significant positive impact on many lives and for the economy as a whole.[71]

### 5.2.5 More transparency, better consumer protection

Over recent years reforms have meant greater transparency through enhanced reporting requirements of financial services providers to regulators, and better disclosure of information.

Some key changes include:

- **New anti-hawking laws** — These new laws prohibit financial services providers from approaching (e.g. cold calling) an individual to sell them a product unless the consumer has requested it.
- **Stapling of superannuation** — As discussed in 5.2.1, 'stapling' means an employee will have one fund that follows them through their working life, unless they decide to change funds, thus eliminating duplicate fees and premiums being deducted from their retirement savings.
- **Superannuation fund performance measurement** — APRA now conducts performance testing on superannuation funds, and measures the performance of a fund compared to other similar funds. These results are published annually. The purpose of this comparison is to provide information to fund members about the relative performance of their fund, which gives them the opportunity to switch to better performing funds should they desire. Critically, funds that consistently underperform are required to write to their members in the first instance to advise them of the fund's underperformance. If under performance persists, the fund is required to stop taking on new members. Treasury will review the performance test in 2022 and any other unintended consequences of the YFYS reforms.
- **Financial advice** — Financial advisers must now undergo thorough professional training and have a strict responsibility to put the client's best financial interests first. ASIC has been rigorously assessing industry practice and has highlighted it will maintain their focus.

Taken together, these new provisions mean consumers are more informed and better protected than ever before.

### 5.2.6 What's next on the regulatory agenda?

Over recent years the financial services sector has been through significant change intended to improve consumer protection and the overall performance of the sector. The new Government has recognised the scale of the recent reforms, and has indicated that they will prioritise stability over the medium term. There are, however, still a series of reforms in the pipeline that the Government and regulators are developing that will directly involve MetLife and other life insurers. These include:

- **Review of the Quality of Advice** — This Treasury review is examining the regulation of financial advice and financial advisers, and will seek to promote greater transparency and simplification of the documentation required when advice is provided to a consumer. Critically, the review will also look at payment mechanisms for life insurance premiums and the issue of commissions. Commissions to advisers allow a customer to purchase life insurance more cheaply in the early stages. MetLife has made a submission to this review that highlights how these commissions can put downward pressure on the cost of advice. Equally importantly, the reduction in the number of advisers over recent years (from 28000 in 2018 to only 18000 in 2022) means access to advice for ordinary Australian's is becoming harder to get and more expensive. MetLife has highlighted this policy challenge with regulators and legislators. With more Australians retiring with more assets than ever before, the availability of quality, affordable advice is essential to optimise the intentions of the superannuation architecture. This review will look at new ways consumers can access advice, while also making it more affordable by providing different ways to pay and better use of technology. The role of robo advice is a key consideration of this review. The review will hand down its final report in December 2022.
- **Retirement Income Covenant** — The Government released its Retirement Income Review – Final Report at the end of 2020, which found that superannuation funds could improve retirement planning for members. Thus far, funds have been effective in helping employees grow their superannuation accounts while working. Government now requires superannuation funds to provide strategies for their members that detail how to manage accumulated funds in members' retirements. This is called the Retirement Income Covenant. Funds will need to provide members with information and strategies that allow them to refine their income, asset, transfer payment and insurance arrangements to optimise their retirement finances.
- **Single Disciplinary Panel** — In 2022, this panel will be introduced to provide additional measures to sanction advisers who have breached regulations.
- **Superannuation Guarantee changes** — From 1 July 2022, employers are required to contribute superannuation to employees (over 18) earning less than $450 per month. This will help low-income earners build adequate retirement savings. Importantly, we know that there are significant differences in superannuation balances between men and women. This measure will assist many women who are casually employed for brief periods, assisting in the narrowing of the superannuation gender inequalities that currently exist. This will be further augmented with superannuation guarantee employer contributions as they rise to 15% over time.
- **Continued prudential and regulatory oversight** — APRA and ASIC have prioritised ongoing scrutiny of superannuation funds to ensure they are operating with the best financial interests of their members at the core of everything they do. APRA has also made it clear that they expect better and more regular engagement between product providers and customers.

- **Financial Services framework review** — The Australian Law Reform Commission is conducting a comprehensive review of all legislation that relates to financial services. The review provides an opportunity to reduce complexity, reduce duplication, and provide for principles based legislation. Ultimately, it is likely that there will also be harmonisation of key legal definitions across multiple financial services Acts, making navigation for consumers simpler. MetLife has been actively involved in this review, and has presented a case for principles-based legislation and common definitions across all relevant financial services legislation, including the Corporations Act and the Superannuation Industry (Supervision) Act. This Review will likely have far-reaching implications for the finance sector; the final report to Government is due in 2023.
- **Privacy Act 1988 review** — There is a review currently underway of the Privacy Act 1988 which will recommend ways to update the current Act to ensure consumer data continues to be protected in the digital age. This review is an essential preparation for increased digitisation of the interface between business and consumers. An important consideration has been the recent introduction of Open Banking, whereby a consumer can request the transfer of their personal financial data from one provider to another, thereby enabling a more competitive market and ultimately benefits such as bespoke interest rates based on risk. For these changes to be given full effect, consumer protection will need to be guaranteed, and the review of the Privacy Act to better reflect the digital age is an essential element of future consumer protection.

### 5.2.7 Insurance inside super and review of the Sole Purpose Test

In December 2018, APRA announced its intent to review the Sole Purpose Test, in the context that the existing guidance dated to February 2001 could be open to misinterpretation. Upon being questioned about the status of this review during the Senate Estimates hearing of 2 June 2021, APRA indicated that this review was on hold due to the YFYS legislation, suggesting that the "best financial interests" requirement may have removed the need for further guidance.

MetLife, together with other industry participants, does not believe the YFYS legislation has roundly closed out the need for improved guidance on several matters, including advice (relating to the charging of fees from superannuation accounts). MetLife also supports broader discussion as to the provision by superannuation funds of insurance solutions for pre- and post-retirement in a holistic manner.[72] This would be consistent both with the intent of the Retirement Income Covenant and recognition of the reality that, as the superannuation system has matured, larger superannuation funds (as financial service providers in their own right), could further improve their offerings of extra services to their members in a holistic and cost-effective manner.

Singapore's Central Provident Fund sets a precedent for the adoption of such a model, wherein financial institutions can provide retirement savings, healthcare and investment solutions for pre- and post-retirement with strong effect. A review of the sole purpose test may provide a pathway to better integrating superannuation with members' financial lives. This could also provide the foundation for improved member data collection by superannuation funds, to link superannuation funds' retirement income strategies with their data strategies and advice strategies, to better serve member's financial needs in retirement and help members to achieve yet stronger outcomes.

Australia is one of the few countries to provide default insurance within its superannuation system, as outlined in the 2021 Value of Life Insurance Report, and its importance cannot be overstated in light of the quantum of underinsurance our country is facing. It has significantly contributed to providing many people with life insurance cover and a financial safety net that they might otherwise be unable to afford (see "How default insurance works" over page).

Nevertheless, critics of the current default system point out that insurance inside superannuation fails the value test, contains exclusions, restrictive definitions and is poorly adapted to individuals' needs. Arguments often include that people do not know they have default insurance in their superannuation and are paying for the premiums from their super balance, effectively eroding their retirement savings.

Despite these arguments, payout ratios for insurance inside super are among the highest for death, TPD and IP (between 80%-95%).[73] Over the 2021 financial year, the value of claims paid across all insurance types available in super totalled $6.6 billion. As The Future of Insurance Through Superannuation report also shows, default insurance helps increase access to cover especially for those in high-risk populations. It actually reduces costs for individuals as a result of pooling of risk and has lower distribution costs because of current opt-out arrangements.[74]

Over the last few years, reforms such as Putting Members Interests First (PMIF), Protecting Your Super (PYS), and YFYS packages, among many others, have helped tackle many of the issues around multiple accounts and account balance erosion from multiple sets of insurance or accounts.

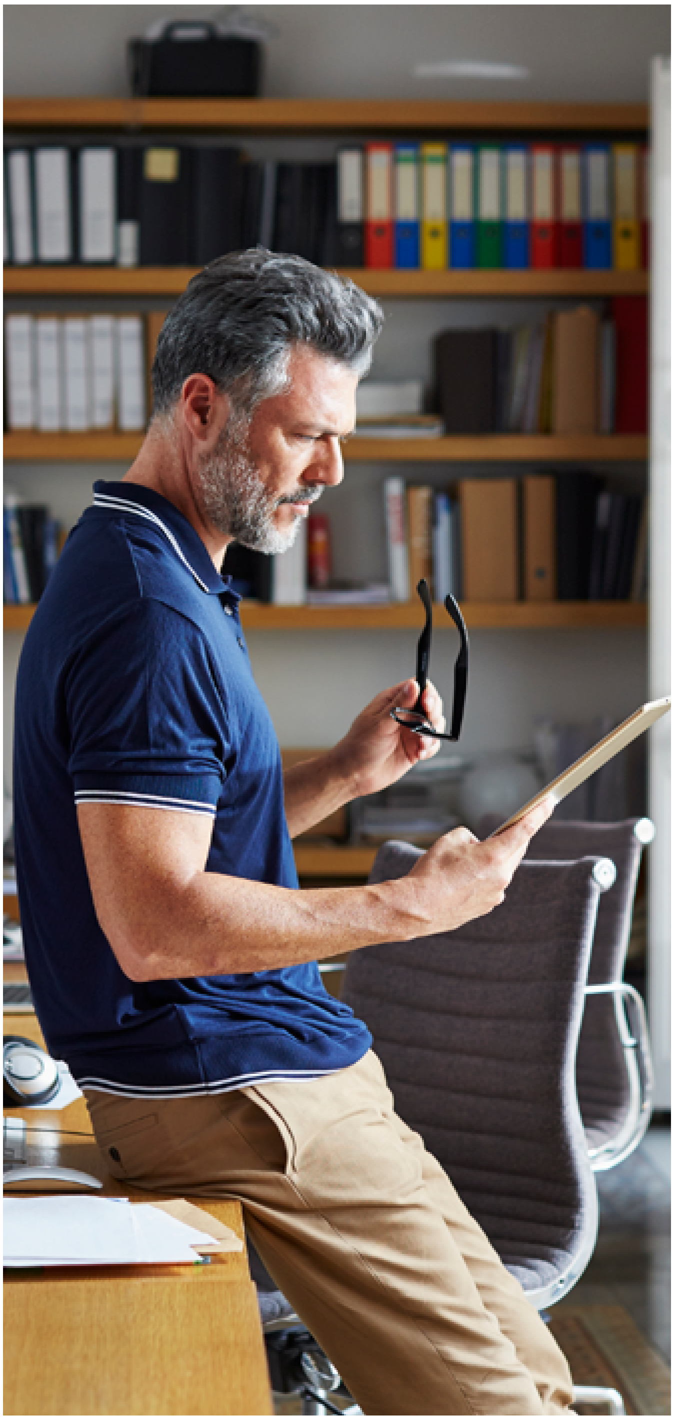
In addition, changes to APRA Prudential Standard SPS 250 Insurance in Superannuation, effective 1 July 2022, requires superannuation funds (RSE licensees) to maintain a sound insurance management framework and robust decision making in the negotiation and ongoing review of insurance arrangements. Other requirements, include clearer expectations for funds to help members make decisions about their insurance arrangements, such as the ability to easily opt-out and to ensure that the rules for attributing a status to a member for their insured benefit are fair and reasonable, improve protections for members. MetLife worked with superannuation funds to identify gaps. Communication to members has been enhanced to facilitate this and increase transparency around benefits and costs of insurance arrangements. Data management requirements have also been strengthened to improve analysis and to enable more meaningful member outcomes assessments.

## 5.3 The future of Group insurance

### 5.3.1 Opt-in vs opt-out

Even with the current default (opt-out) insurance settings in Australia, there is a serious underinsurance problem, as reported in the 2021 Value of Life Insurance Report. This will be exacerbated by a model where everyone opts-in to insurance, something critics of the current system often call for in the name of consumer transparency. The argument is that peoples' retirement savings are being eroded by premiums for something they don't even know about and might not want.

On the surface, the argument about protecting people's retirement savings has appeal. But delving deeper reveals 'unintended consequences' if insurance becomes an 'opt-in' proposition.



### How default insurance works

In Australia, super funds automatically provide life cover and total and permanent disability insurance. Some also provide income protection insurance. 'Default' cover means it is not tailored to a customer's specific circumstances, or where it is, is done so in a limited way.

**Low-cost insurance**
Premiums for insurance in superannuation are generally cheaper because the trustee 'purchases' insurance in 'bulk' for their members and administration is performed by the fund in bulk, making it more efficient. The absence of commission-based distribution costs also reduces the overall cost.

In general terms, because insurance inside super is based on the pooling of lives to allow for lower premiums, policy changes such as PMIF, which remove younger members (who tend to make less claims) from the 'pool', means the 'older' members (who are more likely to claim) will end up paying higher premiums.

**No underwriting**
Because group insurance is based on a pooling of lives and premiums determined by factors such as the fund's member demographic and claims experience, there is little to no requirement for individual medical underwriting. Generally, this means members who have pre-existing medical conditions, who work casually or part-time or work in high-risk occupations can access insurance cover, provided the minimum legislative requirements (age 25, $6k account balance, or have opted-in) are met.

**Other benefits**
Insurance within superannuation is essentially paid from a person's pre-tax income which makes it much cheaper on a like-for-like comparison with a retail policy. Even if the premiums were the same, the person is still receiving a tax saving, paying 15% contributions tax instead of their marginal tax rate.

Super funds and insurers also often provide additional services to members on claim – and now even before claim – to help them stay healthy or return to health. For example, MetLife's 360Health program provides customers with total support from prevention and early detection, to return to health services.

Source: ASFA Guide[75]

### A short history of default life insurance

When Australia's superannuation scheme first started, policymakers recognised that different occupations had different levels of occupation related risk. They wanted to avoid a situation where a worker who was unable to work would draw down on accumulated superannuation savings, impacting their retirement. As a result, life insurance cover was introduced as a benefit and part of a worker's superannuation arrangements. When starting with an employer, provided the worker is a member of a superannuation scheme, they will automatically have life insurance cover.

This is the origin of the default life insurance arrangement that we have today. The system enables large pools of workers to get insurance protection, and insurers to keep the cost of such cover much lower than if an individual applied for a single insurance product on their own. In simple terms, the more people insured, the lower the premium and the more stable the premium.

In this sense, life insurance through superannuation provides peace of mind for those who have cover, and their families, at a relatively low cost.

First, for most people life insurance will become less affordable because insurers will not be able to pool the risk of healthy and unhealthy lives. Much like buying car insurance, people will most likely have to be individually assessed through underwriting, a process that adds to the cost of obtaining cover, but specifically prices each individual for their own risk profile. The consequence is that most people will end up paying more than they would have otherwise paid through a default system of insurance where all eligible members of the superannuation fund automatically received insurance without underwriting.

Second, people don't buy life insurance because it's not perceived as a priority, particularly for the young, and with the average financial literacy score for Australians at 68%, it's arguable Australians aren't going to understand its value until it is too late.[76] Add to this peoples' tendency to focus on the here and now, and the tendency to over-value immediate rewards at the expense of long-term benefits, even if the long-term reward is more beneficial than the immediate one, makes opt-in a scenario that could exacerbate the underinsurance problem in Australia.

Third, life insurance is a way to smooth out the retirement outcomes (that is, leaving the workforce permanently) for those who don't have the good fortune to be able to work until a normal retirement age, free of events such as death, illness or total and permanent disability. In addition, insurance provides recovery services which increase a customer's ability to return to work, ultimately improving their long-term retirement outcomes.

With the odds of needing to claim on life insurance being high - it's 1 in 4 for Income Protection insurance, 1 in 10 on Death and 1 in 20 for TPD[77] – of being default is further reinforced. Life insurance inside superannuation gives people the freedom to maintain their lifestyles. For the person insured, if they were to fall ill or become permanently or temporarily disabled, IP or TPD insurance allows them to continue living the standard of life they are currently used to, and gives them a worry-free recovery to focus on returning to health. They are also less likely to have to rely on family or government support during this time. If the insured dies with adequate cover, life insurance means their beneficiaries will not be burdened with debts. In other words, premium payments are an 'investment' that for those who make it to retirement age without incident, means a slight reduction in super, but a valuable return on 'investment' for those who die (for their beneficiaries) or end up permanently or temporarily disabled earlier.

Finally, people not knowing that they have default life insurance is an issue that can be resolved by funds and insurers educating customers about their superannuation and insurance coverage. This is something that is already happening and should be increased to improve financial literacy in the community. A recent survey[78] on Australians' attitudes towards money, financial advice and retirement revealed people want to turn to institutions they trust, such as their superannuation fund, for advice; and the most popular place to access digital financial planning tools are superannuation fund websites or apps. It shows a growing interest from consumers in financial education – and something super funds can capitalise on to help improve member engagement and outcomes.

### 5.3.2 Evolution of Group life insurance

Technology has changed rapidly over recent decades. For business, technological advances mean greater efficiencies and often cheaper prices. Importantly, consumer data (collected with informed consent) enables businesses to tailor products to an individual's needs.

For consumers, it has meant greater convenience, more choice, and getting what they want, when they want it – or even before they know they want it. Consumer expectations about their interactions with businesses have also seen a shift: their best technology experience becomes their expectation of the next technology experience.

For MetLife's customers in the future, technology will allow MetLife to:

- Tailor a policy that suits the specific needs of a family or individual.
- Adjust that policy to optimise cover at specific 'trigger' points in life such as a home purchase, or starting a family.
- Adjust that policy to suit later points in life, recognising key milestones like retirement and the need to protect retirement income streams.
- Enable a simple and seamless purchase, underwriting and claims experience, while making sure customers still have access to customer service staff when needed such as at claim time.

As the financial services industry moves to a digital future, this will mean:

- Improved product design.
- Improved affordability by better identifying and managing risk.
- Simplified and speedier claims handling.
- Continuous improvements of products and pricing by better use of data.

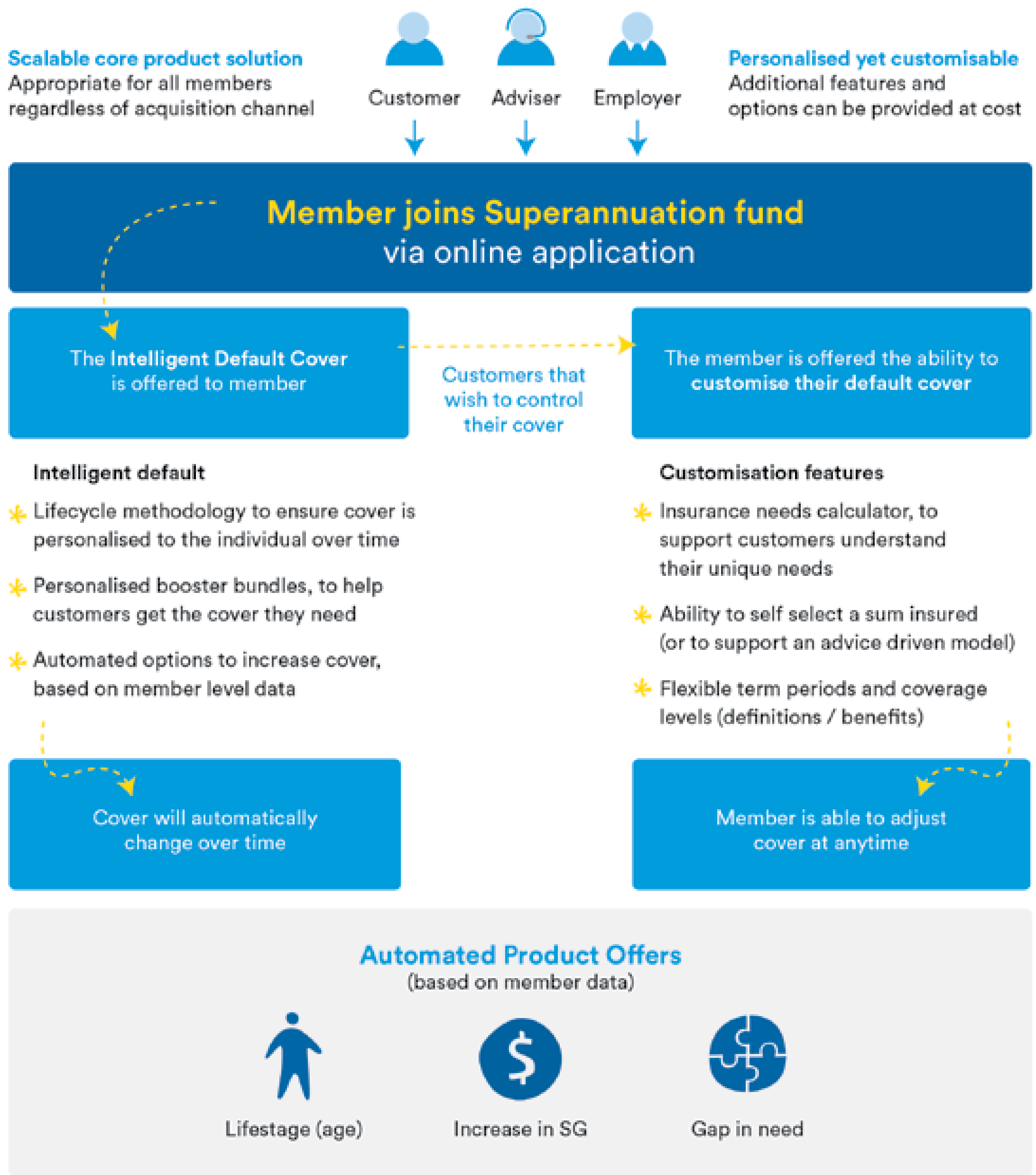
MetLife is progressively digitising processes across the whole customer experience. MetLife's intention is to deliver an optimal digital experience complemented by informed and professional customer service representatives.

### 5.3.3 Human-centred product design

There are many benefits to Australia's current default life insurance in superannuation system but that is not to say that it cannot be improved. In fact, the future of insurance is personalised and intelligent. With the use of data, insurers will be able to automatically tailor insurance products to members' insurance needs (see "Data and personalisation" opposite page).

Intelligent design to MetLife means a simple basic level of protection that turns on automatically for members with a superannuation account. This acts as a safety net for members without any direct underwriting or input. It's a basic level of life insurance cover that will be determined based on data, fund member demographics and the likely insurance needs of the main cohorts, and will adjust automatically with those needs. For those who are more engaged with their insurance, it can be easily customisable so that they can tailor their cover based on their specific needs and preferences, especially "choice" members (see figure below).

**The future – human-centred product design**



The key principles behind MetLife's product design are centred on:

- Personalised and more intelligent cover. Understanding the customer and guiding them to the most appropriate level of cover, providing confidence and certainty in their decision-making.
- Personalised engagement. That is, cover people want, when they want it, based on their needs and preferences. Leveraging customer insights and behavioural economics to drive the customer experience and product solutions offered upon joining and on an ongoing basis.
- Market competitive and affordable premiums that are sustainable in the long term, addressing regulatory concerns and product limitations.
- Balance between affordability and insurance needs. For example, this doesn't necessarily mean lower income people are provided with lower insurance coverage (due to affordability), as their need for insurance might be greater if or when they need to make a claim.
- Insurance terms that are fair. This means paying all legitimate claims, cover terms that are simple to understand, in plain English and reduce external legal involvement, and minimising opportunistic claims, for example, where a person is still capable of returning to work yet chooses to remain on claim. This makes it easier for customers to alter their cover over time to suit their needs.
- Removing cross-subsidies where appropriate. This ensures people pay the "fair" premium commensurate with their insurance risk.

### Data and personalisation

Data is key to unlocking new ways of purchasing and engaging with insurance in the future. For example, data can be used to identify when a customer's insurance needs have changed, such as receiving a large salary increase that triggers an automated, digital offer. Data can also make the underwriting journey easier by providing information about a person's risk profile, resulting in faster application times.

The data accessible today is largely limited to basic demographic and financial data, like age, gender, and income. In the future there may be opportunities to enrich the analysis with additional data that helps insurers' design products better tailored to the specific needs of their customers, for example banking data through Open Banking and the expansion of the Consumer Data Right to more sectors, such as superannuation.[79] More data about a fund's membership will help insurers design products that are fair, affordable and appropriate.

Today, product design is typically reviewed on an annual or half-yearly basis and requires significant manual effort. In the future, monitoring could occur on a real-time basis through data automation and analytics. Alerts can also be created that send out notifications when key performance indicators have not been met. This will allow funds and insurers to quickly respond and adapt to changes in a product's appropriateness.

With account stapling, the expectation is that members will stay with a fund for longer. Funds have more opportunities to engage as members progress through different life stages. The ability to be responsive to changes in a person's life, providing information and products at the right time, when it's relevant for them, helps funds improve member engagement, which is now more important than ever.

Finally, the pandemic has accelerated the adoption of digital as consumers have become accustomed to using online products and services at home. Even the most “digitally resistant” have adopted digital, representing a fundamental shift in the attitudes and behaviours of consumers.[80] At the same time, the proliferation of digital experiences has changed what consumers expect from all products and services. Today, consumers expect experiences that are seamless, low-touch and immediate. This provides an opportunity for life insurers and superannuation funds to provide people with access to digitally led insurance experiences.

In response, MetLife is transforming how it engages with customers throughout the application and claims process providing a seamless omni-channel experience. For example, in the application process, this includes pre-populated online forms for superannuation fund members, auto-acceptance (for 65% of applications), and progress updates provided in the form the customer chooses.

In the claims setting, a customer can lodge their claim online, with policy details already pre-populated and ongoing guidance from the system. A dedicated case manager is there for the customer, where required, and additional support is also provided by MetLife’s recovery specialists to help the customer return to health. Progress updates, including claim outcome, are provided in the form the customer chooses, such as text message, email or phone.

### 5.3.4 Accessibility: Intra-fund advice

Currently superannuation funds can provide members with simple, non-ongoing personal advice on the member’s interest in the fund, where the cost of the advice is borne by all members of the fund. This can include insurance arrangements that apply to the person’s interest in the fund and the types of cover that may be suitable to them.

Intra-fund advice mostly relates to additional superannuation contributions and investment options.[81] Recent MetLife research found that 61% of people trust their superannuation fund to help them make an informed decision in relation to life insurance.[82] With the majority of working Australians having a superannuation account, it’s an avenue of advice that can help with the underinsurance problem in Australia.

The top barriers holding back members from seeking advice from their fund are unclear costs and a lack of awareness about what advice topics members have access to.[83] There might even be an argument that intra-fund advice should be expanded to enable funds to provide advice on super and non-super assets, pensions, retirement planning and even life insurance not included in default arrangements such as trauma cover (see Retirement Income Covenant below). This would give many Australians access to affordable advice on critical topics, such as retirement strategies.[84]

It’s a call to action for funds to better communicate the availability of this type of advice – thereby encouraging member engagement and increasing loyalty.

**Retirement Income Covenant**

Multiple reports have recognised that the superannuation system has been very effective at allowing people to accumulate savings for their retirement. However, to date there has been inadequate attention given to how superannuation funds can help members to plan for retirement.

In 2022, the Government gave effect to the Retirement Income Covenant which means that superannuation funds will need to develop specialised strategies for their membership cohorts, that outline options for securing retirement incomes for them. These strategies will need to recognise the revenue sources retirees will require in retirement, liquidity requirements, risk appetites and an ongoing ability to draw down from accumulated savings.

Over time, this will mean superannuation funds will be tasked with not just assisting members with accumulating wealth, but also helping members plan for how they spend that wealth into retirement. It is also expected that these plans will complement the social security and aged pension systems.

## 5.4 Retail advice: It's personal

For most Australians nearing retirement, access to good financial planning advice is essential. However, recent reports show that financial adviser numbers have fallen below 18,000[85], following a downward trend that has been taking place since the Future of Financial Advice reforms. The COVID-19 pandemic has also played a part with face-to-face meetings – arguably the bread and butter for the advice sector – all but eliminated.

### 5.4.1 Supporting financial advisers

Financial planning can get complex very quickly. It is essential Australians have access to affordable and professional advice. This is why MetLife works closely with advisers to support their professional development and raise their awareness of regulatory change.

Over the years, MetLife has provided financial advisers with a comprehensive training and development program. In 2021, more than 1,000 advisers attended our courses and seminars on the following key areas:

- New DDO for providers
- New arrangements for IDII
- Assistance with the FASEA requirements
- FASEA exam preparations

MetLife understands the critical role financial advisers play in securing the financial wellbeing of Australians. As well as supporting our adviser partners through seminars, training and support schemes, we also established the MetLife Advisors Advisory Board. This board is comprised of experienced financial advice specialists who provide feedback to MetLife on customer interaction, digital architecture, customer need and emerging trends. This board meets formally each quarter, and is an integral part of MetLife's program of continuous improvement.

In addition, at MetLife, we see advisers as key players in the financial services ecosystem – and will continue advocating on their behalf – to ensure ordinary Australians have access to sound financial advice to help them build a confident future.

This comes at a time when the need for financial advice has never been greater. The COVID-19 pandemic saw people across all age groups impacted, for example, losing jobs, having to put retirement plans on hold or dipping into their super through the Early Release Scheme. Research during the pandemic in 2020 found many experienced financial stress and uncertainty due to lockdowns and the precariousness of government financial support.[86]

A recent report found the pandemic prompted many to consider their financial situation and seek advice earlier than planned.[87] It notes: "The last year has seen an increase in the proportion of advised clients who believe their financial position has improved due to the efforts of their financial adviser ...". This has led to increased client satisfaction and loyalty. There is also likely to be "significant demand" for advice in the future.

It's a real opportunity for advisers, especially with 3.2 million Australians open to using an adviser in the next two years. The answer is in providing the type of advice that people want, when they want it. For some individuals it will be comprehensive personal advice, but it comes at a price that not everyone can afford. For low– to mid–income Australians, who still need financial advice, the availability of limited advice covering specific issues might be one option. Another might be digital/robo-advice, something that Australian regulators have been supportive of, with guidance on providing digital advice going as far back as 2016.[88]

> **"Rates of mental distress are approximately four times higher for people experiencing financial stress ... Moreover ... at times of increased financial stress there is increased mental distress."**
>
> **The Melbourne Institute**

The regulatory framework for advice is being considered by Treasury's Quality of Advice Review, which will release its report in December 2022. With more than $3T under management by superannuation funds, it is critical that Australian's have access to professional and ethical advice.

Australia now has the first cohort of workers nearing retirement who have had compulsory superannuation their whole life. This means that the scale and significance of their financial decisions will be become the most serious decision for them – whilst the purchase of a home has historically been the single biggest financial decision a person makes, that will be replaced by decisions made at retirement. For this reason, it is critical that the policies and regulation which guide the provision of advice are prudent, affordable and accessible to all.

Australians, rightly, will want the opportunity to safeguard these important decisions with appropriate levels of life insurance. MetLife is actively involved in optimising customer engagement, improving financial literacy, and supporting the adviser community. We complement these efforts with advocacy to Parliamentarians and policy makers which emphasises the importance of getting the retirement policy architecture right.

# 6. Financial literacy

## 6.1 Overview of financial literacy in Australia

Conceptually, financial literacy can be viewed as understanding and effectively using financial skills, including personal financial management, budgeting, and investing.

The OECD defines financial literacy as

> "A combination of awareness, knowledge, skill, attitude and behaviour necessary to make sound financial decisions and ultimately achieve individual financial wellbeing."

There are five principles of financial literacy:

- Earn — accumulating through income (salary, inheritance etc.)
- Spend — day to day expenses, creating a budget
- Save — putting money aside to achieve financial goals
- Borrow — acquiring temporary funds for discretionary spending (mortgage, credit cards, loans and pay later schemes)
- Protect — against potential financial loss (insurance)

Financial illiteracy is defined as not understanding three of the five basic financial concepts. Recent research[89] shows that financial literacy among Australians is poor, with widespread financial illiteracy particularly prevalent in young people. There are also significant gaps for women, who on average are less financially literate than men. In Australia, only 63% of men and 48% of women understand at least three of the five basic financial literacy concepts. Based on these statistics, more than 8.5 million people or 45% of Australians could be classified as financially illiterate.[90] The gender gap on financial literacy is somewhat surprising, given women's increased participation in higher education, which is now higher than men for education levels ranging from Year 12 completion to bachelor level, according to ABS statistics.[91] This may be an area worthy of more detailed research.

This trend in financial illiteracy further exacerbates financial vulnerability and highlights the need for protection. But ironically, financial illiteracy in some cases means not even understanding the need for that protection.

In its 2018 Financial Consciousness Index[92], Deloitte Access Economics found nearly one-third of the population is financially vulnerable, meaning they are concerned about job security and the ability to retire comfortably. MetLife's own research in 2020, which examined the impact of the pandemic, found that 60% of people had experienced negative financial impacts as a result of COVID-19.[93] Overall, people seem to know more and feel confident about simple and familiar financial topics, such as budgeting; but lack confidence when it comes to more complex and unfamiliar topics, such as investing, saving for retirement and protecting their assets and income.

Another study showed significant disparities in knowledge and understanding of financial matters across different groups in the community.[94] Financial literacy is lower in remote and regional areas, and among lower socio-economic communities.

In its 2019 report on remote and rural health, the Australian Institute of Health and Welfare (AIHW) observed that people living in rural and remote areas are more likely to die at a younger age than their counterparts in major cities.[95] They have higher mortality rates, higher rates of potentially avoidable deaths and lower life expectancy than those living in major cities.

**In 2017, age-standardised mortality rates increases as remoteness increased for males and females:**

Males living in very remote areas had a mortality rate **1.4x** higher than those living in major cities

Females living in very remote areas had a mortality rate **1.8x** higher than those living in major cities

Similarly, individuals with lower socio-economic circumstances have higher rates of injury and premature death than those living in higher socio-economic situations.

In broad terms, individuals in the 10% most disadvantaged socio-economic circumstances have mortality rates that are:

- ~2x that of median mortality
- ~3.5x the mortality of those in the 10% most advantaged socio-economic grouping

These statistics together show an alarming trend – that individuals who may have lower levels of financial literacy may also have a greater need for financial protection in the form of life insurance.

## 6.2 Financial literacy and financial wellness

Research has shown that financial literacy is an essential factor in determining positive financial outcomes for individuals, including wealth accumulation, planning for retirement, superannuation savings, protection of assets and women's economic empowerment.[96]

Widespread financial illiteracy is concerning in the 21st century, given the very complex financial arrangements and investment opportunities that are readily available to most consumers. Further, people are now exposed to high levels of personal and household debt and have easy access to credit opportunities, such as the wide range of buy now, pay later schemes and ready access to non-traditional borrowing sources.

As of April 2022, there were over 13 million credit cards in use in Australia, netting a national debt of $18.1 billion with an average balance of $2,862, accruing on average interest of $1,378 per year.[97] While the pandemic has seen an overall reduction in credit card debt over the last two years, it is still evident that a significant number of Australians use credit cards to help manage their day-to-day financial obligations.[98] According to the Reserve Bank of Australia, the average standard credit card rate of interest is 19.94%.[99] The reliance on credit cards by a significant number of Australians at these interest rates may be an indicator of high levels of financial illiteracy, contributing further to financial insecurity.

Improving financial literacy can have significant benefits for individuals, no matter their age or income. MetLife's research found that a third of people said their mental health had been impacted by financial uncertainty and confirmed the impact of financial stress on mental health.[113] By developing the confidence, knowledge and skills to understand financial products and services, individuals can increase their sense of security and overall emotional and physical wellbeing.

The Government's Head to Health website also recommends improving a person's financial literacy as a key factor in managing financial distress.[101]

## 6.3 Financial literacy benefits individuals and society

Most people understand the concepts of earning, spending and saving. However, when it comes to planning for the future and ensuring adequate protection, people are less engaged and have lower levels of understanding. For example, in its 2017 financial capabilities survey, the Australian Securities and Investment Commission (ASIC) found that less than 35% of participants were aware of how much superannuation they had.[102]

According to the Australian Bureau of Statistics (ABS), in May 2021 the average mortgage size in Australia was $549,493. Based on APRA's *Life Insurance and Claim Dispute Statistics*, the average insured amount paid out of superannuation funds is approximately $135,000. Combined with a median superannuation balance of less than $100,000 for individuals in their 40s[103], this means that a significant number of Australians do not have enough insurance to cover their mortgage commitments.

Evidence also suggests that people may not be aware of this gap. Additionally concerning, macroeconomic and social trends are increasing the numbers of Australians who hold a mortgage at the point of retirement or have significant financial obligations until later in life (as covered in Section 3). This now means there is a sustained need for life insurance later into life (and potentially the retirement horizon), to cover these extended financial risks.

Historically there has been an inflexion point between life insurance cost and benefit (with life insurance often reduced or discontinued by consumers at the point a mortgage was repaid and other substantial financial obligations ceased) – a balancing of costs against needs, while maintaining a degree of cover to accomplish financial goals. It is increasingly clear that this practice can no longer be taken as a given. It is incumbent upon responsible market participants to ensure life cover and affiliated solutions remain a part of the conversation with customers through their changing life needs.

Good financial literacy skills help individuals and families make informed decisions, meet their goals and secure their financial wellbeing, leading to a confident financial future. This also contributes to the economic health of the broader society. Improved financial literacy can increase economic participation and social inclusion, drive competition and market efficiency in the financial services sector, and potentially reduce regulatory intervention.

## 6.4 Understanding life insurance adequacy

Life insurance protects an individual in case of the loss of income as a result of premature death, injury and illness. In this way, it supports one of the five principles of financial literacy – to protect.

Superannuation is one of the primary ways Australians receive access to life insurance. While there are relatively high levels of awareness around the existence of insurance inside super (in 2019 MetLife found awareness was at 73%[104]), many don't know fundamental details about their insurance, including how much they are covered for, how much they need or that their default insurance can be adjusted to meet their needs. This lack of engagement means many may not have sufficient protection to cover living expenses or provide for their families, should they suffer a significant illness, injury or death. This is a major cause of underinsurance in Australia.

In recent years, the underinsurance gap has continued to widen. Since June 2018, the insurance sector has seen an overall reduction in sum insured of 17% and 19%, for death and TPD cover respectively.[105] This is driven mostly by the drop in Group insurance inside superannuation, being 27% for death cover and 29% for TPD cover. This decrease has largely occurred due to legislative changes for superannuation, including Protecting Your Super (PYS) and Putting Members' Interests First (PMIF). These reforms removed duplicate accounts and unnecessary insurance by ceasing default insurance cover for younger members, inactive accounts and low balance accounts.

Though largely achieving their objectives, these changes may have unintentionally widened the gap and removed valuable cover from those less financially literate who may need it the most. The research from Rice Warner[106] indicates that the underinsurance gap is greater for those with young families.

There is an opportunity to raise awareness of underinsurance, assist people in understanding their need for adequate protection, and provide appropriate resources to help them understand their needs. MetLife, for example, works closely with superannuation fund partners to drive member engagement, awareness of the benefit of life insurance and the need for insurance adequacy.

Currently, calculators provide results that may be off-putting and intimidating for the financially illiterate, due to the amount of coverage and costs they end up saying a person needs. In raising awareness about underinsurance, it is important that industry participants continually adapt their approach to address customer needs and ensure insurance can be accessed on a user-friendly and convenient basis.

MetLife is finding ways to make our services access their life insurance faster and easier. We have also reviewed our communication materials to ensure they are accessible for all Australians. Customers receiving a large lump sum payment are offered financial counselling in order to help them maximise their benefit. We continue to work on improvements that make our products more accessible.

With greater engagement and access comes greater adequacy of cover. As individuals acquire more appropriate levels of cover, the economic benefits are also felt by the broader society. Having insurance allows continued spending for those impacted by injury, illness, loss of income or premature death, contributing to the growth of the economy. Insurance affects not only the insured person and their dependants, but also has a financial impact on the Government and other individuals in the community.

In its report Underinsurance in Australia 2020, Rice Warner estimates the total cost to the government in social security payments of death and TPD underinsurance to be $600 million per year.[107] This reinforces the assertion in the 2021 Value of Life Insurance Report that life insurance can also reduce the taxpayer's burden by removing or reducing the need for financial support from the government for those not adequately covered.

## 6.5 The future of financial literacy

For a developed country, Australia financial literacy rates are unacceptably low. There is a compelling case for increasing financial literacy and it is incumbent on all participants to play a role. Industry participants such as Suncorp Bank and independent charity Financial Basics Foundation, are already calling on governments to introduce financial literacy as a standalone course across all secondary schools to teach young Australians how to make good financial decisions and support their financial wellbeing.[108]

However, more needs to be done for adults who have missed the opportunity to build those foundations during their schooling years. With all working people holding superannuation, funds are in a unique position to educate their members and in partnership with insurers can have a significant impact. MetLife is exploring opportunities locally and globally to help build financial literacy for our people, our customers and our community. This includes tapping into resources and tools available across MetLife's global network.

# 7. Life insurance myths

Myths around life insurance persist in the industry and among consumers. In this section we address some of these myths head on and provide data and facts to frame up reality.

| Myth | Reality |
|---|---|
| **7.1 Claims don't get paid** | Based on MetLife research, in 2021, around 3 in 4 (73%) people had concerns about their life insurer paying out benefits in the event of a claim. Over the years, there has been an increasing trend of people who hold this view, further perpetuated by the media.<br>APRA data[109] shows that in 2021, for policies accessed via financial advisers, insurers paid out on average:<br>• 97% of death claims<br>• 82% of TPD claims<br>• 87% of trauma claims<br>• 95% of disability income insurance (DII) claims<br>For policies accessed through superannuation, insurers paid out:<br>• 98% of death claims<br>• 89% of TPD claims<br>• 95% of DII claims<br>The percentage of claims paid out by insurers continues to increase across all the abovementioned cover types. |
| **7.2 You don't need life insurance if you're young and don't have dependants** | Following is a real example of where insurance cover proved valuable for a young MetLife customer:<br>A 19-year-old arborist lost three middle toes and part of his little toe in a mowing accident, while wearing steel-capped boots. It took him two hours to get to the hospital followed by 20 hours of emergency surgery to re-attach his toes. Eight months after the accident, the customer lodged an Income Protection claim as an e-claim and received his benefit payment from MetLife the next day.<br>Due to his injuries, he could not return to his previous profession. To support the customer on his return-to-work journey, MetLife offered him rehabilitation services. These services have helped the customer return to health and the benefits paid have supported him financially while he was unable to earn a living. |
| **7.3 Only the main bread winner needs life insurance** | In two-income households, the higher income earner may be considered the bread winner and be the only life that needs to be insured. Though one partner may earn less income or not earn income, the unpaid roles they are responsible for still carry value. If the person performing the main caring duties in the household is unable to work and perform caring duties, there may be a dual financial impact on the household, as caring services might need to be outsourced for a fee. |
| **7.4 My health status disqualifies me from life insurance** | Many people with underlying medical issues are afraid their health status will prevent them from receiving coverage or will make it too expensive.<br>While cover for those with pre-existing conditions may not be available through some superannuation funds due to the shared risk pool nature of group insurance policies, individuals can still access cover via retail or direct channels. Seeking help from a financial adviser can be key to finding the right insurer willing to provide cover for certain health conditions at reasonable rates. |

| Myth | Reality |
|---|---|
| **7.5 All insurers have blanket exclusions for mental health** | Mental illness is becoming increasingly common. One in five Australians aged 16 to 85 experience some form of mental illness in any year and 45% of Australians will experience a mental illness in their lifetime.[110] When applying for insurance, individuals are required to disclose details of their medical history, which can include any mental illness or simply seeing a psychologist. In some cases, this results in a mental health exclusion or higher premium loading – which is seen as a barrier to obtaining adequate life insurance coverage.<br><br>However, not all insurers take this blanket exclusion approach to mental illness. For example, MetLife does not have a blanket exclusion on standard policies and takes into consideration all relevant information at the time of underwriting. |
| **7.6 If anything happens to me, I can rely on Government disability payments** | Income protection insurance provides an individual and their family with a payment in the event they are unable to earn an income through serious injury or incapacitation. This payment is considerably more than a Government disability payment, and can ease the difficulty created by periods off work.<br><br>MetLife Australia pays out on average $1,000 a week on each income protection claim. In contrast, a Government disability payment will likely be less than $500 a week and is means tested. This difference can have a significant impact on a persons lifestyle, especially as many customers will have ongoing medical costs to cover. |

# 8. Closing comments

The 2022 Value of Life Insurance Report paints a picture of a purpose driven industry, that is both delivering value for customers, society and the community and evolving to meet changing expectations, while also managing digital change.

In this report we have presented research and insights which demonstrate the variety of ways life insurance provides value. When viewed from a range of perspectives – from the individual, society and economy – there is a strong case for this vital safety net in helping secure a confident future. We have also presented a range of case studies that make real the impact we have on our customers, with a view to driving greater understanding of the benefits of life insurance.

While life insurance and the ecosystem in which it operates can seem complex, organisations such as MetLife are working to improve customer engagement and understanding of their life insurance, especially in the context of a changing landscape.

Legislative change has and will continue to apply pressure to the industry, as participants work through the implications of recent changes. With no new major legislative change currently on the horizon, however, it appears the industry will be able to shift focus from implementation to innovation and transformation. This is timely, as customer expectations around seamless, easy and fast digital experiences, means that life insurers need to begin transforming, as MetLife has been doing.

Customer expectations about their interactions with businesses have shifted and their best technology experience is now their expectation of their next technology experience. This means organisations must evolve to meet these expectations or risk being left behind. We see digital transformation as a basic requirement in order to both meet expectations and regulatory requirements, and is an enabler for data driven decision making, product personalisation and improved customer outcomes.

For the first time, we have also looked at financial literacy in Australia, its impact on life insurance and the role of life insurance in improving financial health. With underinsurance an ongoing concern and macro-economic factors applying pressure, the risk is that people, especially women, will fall further behind. Life insurance, particularly through superannuation where it is accessible and affordable, is a fundamental safety net and arguable more relevant than ever before.

Financial literacy is an important lever that can be used to address underinsurance and the widening gender gap. A lack of financial literacy is a major factor affecting engagement and one that needs to be addressed.

In this report we have aimed to start an important conversation with industry participants in order to drive understanding about the value of life insurance, the impact of underinsurance, how the economic and customer landscape is changing and how MetLife is responding to all these factors.

# 9. MetLife

## 9.1 A global brand

With more than 150 years of experience, MetLife is a leading life insurance company, recognised as a leader in delivering protection, retirement and savings solutions.

MetLife has established a strong presence in more than 40 markets globally and offers life, accident and health insurance, retirement and savings products through agents, third-party distributors such as banks and brokers, and direct marketing channels.

We also focus on supporting communities around the world through grants, impact investments, employee volunteerism and donations, and long-term grassroots partnerships. The MetLife Foundation has provided nearly US$1 billion in grants over the last 40 years, including a US$25 million commitment to help communities respond to and recover from COVID-19.

**MetLife global statistics**[111]

- Serving 100 million customers worldwide.
- $30 billion paid out in claims and benefits to customers each year.
- 45,000 employees globally.
- Ranked 74 on the 2021 Forbes Global 2000 ranking on world's largest companies.
- No. 46 on the 2021 Fortune 500 list.

## 9.2 MetLife in Australia

MetLife Australia is a leading provider of life insurance, partnering with employers, superannuation funds and financial advisers to help Australians build a confident financial future.

MetLife is the third largest insurer in life insurance inside superannuation and the second largest in corporate insurance in Australia, covering 1.5 million people and in 2021, paid over $499 million in claims to policyholders.

With a growing market share, evolving industry and increasing customer expectations, MetLife is focused on delivering great experiences for customers and the intermediaries we work with. Digital fit-for-purpose solutions that deliver value and purposeful value-added services are the hallmarks of what we deliver for our customers.

In 2021, MetLife was named Life Insurance Company of the Year by ANZIIF, after previously winning the same award in 2019 and was named Life Insurer of the Year in the Super Fund of the Year Awards for the second year in a row. In 2022, MetLife was awarded four ALUCA Awards for Claims, Recovery and 360Health. Other recent awards include a Plan for Life Excellence Award – Product Innovation in Health and Wellness and the Asia Gold Stevie Award both for 360Health, the Insurance Asia Award for Best New Insurance Product, and AFA Life Company of the Year Award for Term/TPD.

MetLife provides life insurance solutions through three distribution channels:

1. **Superannuation (Group)** — MetLife partners with superannuation funds to offer their members Death, TPD and IP cover through fit-for-purpose default life insurance policies.
2. **Corporate** — MetLife partners with corporate organisations to tailor solutions to their talent cohort, offering Death, TPD and IP products as an employee benefit.
3. **Retail** (through independent financial advisers) — MetLife offers a unique modular product offering to allow advisers to tailor policies that meet their clients' needs for Death, TPD, Trauma and IP Insurance.

To complement our suite of insurance products, MetLife's own health and wellness program, 360Health is designed to help customers throughout their health journey. This program includes Virtual Care, an app-based service providing access to expert medical support and guidance from the comfort of the customer's home.

# 10. MetLife Australia

## 10.1 Australian Leadership Team

**Richard Nunn**
Chief Executive Officer

**Brad Bradenburg**
Chief Risk and Compliance Officer

**David Campbell**
Chief Operating Officer

**Gerard McDermott**
Chief Strategy and Data Officer

**Keiran McKinnon**
Chief Insurance Officer

**Michael Mullholland**
Chief Distribution Officer

**Lina Saliba**
Chief Customer and Marketing Officer

**Alex Sosnov**
Head of People and Culture Australia and Regional Talent Lead for Asia and EMEA MetLife

**Wendy Tse**
Chief of Staff, Strategy and External Affairs

**Vince Watt**
Chief Financial Officer

**Duncan Whiteside**
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