NEW

Group versus retail life insurance

Does the traditional retail space have market ascendancy over the group sector in Australia's risk insurance segment? **Thierry Bareau** investigates.

Australia's financial services market remains dynamic, marked by a progression of structural shifts. These are reflected by pricing, product and distribution challenges at the consumer-facing and adviser level.

Nowhere is this more apparent than in the life risk segment, where price convergence between the retail and group (wholesale) segments has created new opportunity for increased competition.

A combination of forces including changing population demographics and underwriting pressures appear to have opened new fronts in the battle for market share.

Certainly, a price 'convergence' dynamic has developed with the narrowing of the traditional retail and wholesale (the so-called group business) segments, creating the pre-requisites for a sharper competitive environment.

Why? Recent analysis shows Australia's group life segment has begun increasing premium levels, a fact borne out by our firm's own research. Rice Warner compared the average premiums for the 10 largest industry and public sector funds against the average premiums for the retail adviser-sold products offered by 15 insurers. The results are compelling.

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Group versus retail insurance comparison

What it shows is that, although superannuation funds remain a lower cost proposition to consumers on average, the margin between the retail and group segments has narrowed substantially, and continues to compress.

Price differentials have reduced in the last eight months alone. During this time, super funds increased pricing by 14 per cent on average, while retail prices increased by an average of just one per cent.

Despite this, insurance provided through superannuation funds does remain more affordable than retail products. Gender-based comparisons show that on average, insurance provided through super is approximately 31 per cent cheaper for males and 24 per cent cheaper for female as at March 2014. This is substantially different to last July, when they were 39 per cent and 33 per cent cheaper for males and females, respectively.

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Why the price difference?

The difference in pricing is partly explained by the commissions that are embedded in the retail products.

Level commission accounts for between 25 and 33 per cent of life insurance premiums. It follows that if an adviser works on a fee-for-service basis, rebating commission to the client, the average premium for the retail product would be cheaper than the average premium for group cover.

Ahead: Other considerations

One advantage that retail insurance has is that it survives on its merit, alongside and outside the taxation and regulatory frameworks linked to the superannuation system.

Various benefits may be 'de-linked' when considering, for example, the Superannuation Industry Supervision Act (SIS) terminology, such as an "own occupation" or "home duty" definition for total and permanent disability (TPD).

The same product outside super would offer (currently for the same price, but it may change) more flexibility and more features not allowed under the SIS regulation, such as counselling benefit or financial planning benefit.

Also under the SIS regulation, an income protection benefit may be unable to be paid if the person is unemployed at the time of claim if the product is taken inside super.

Introductory financial planning would tell us that one of the disadvantages of a retail product outside super would be that the premium is not tax deductible. However, for higher net worth clients already utilising their $25,000 contribution cap, the argument is not an issue.

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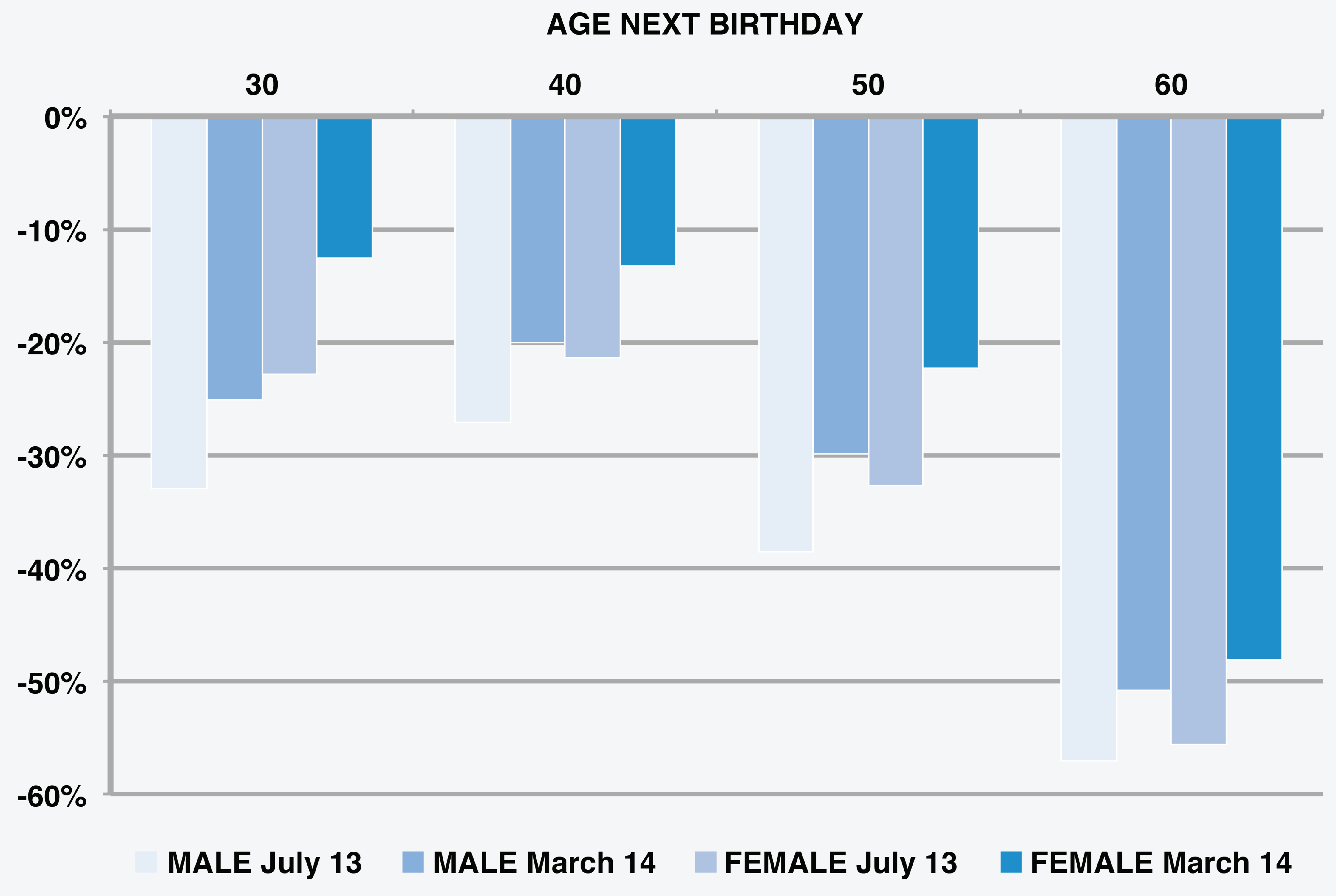
SUPER FUND PRICES RELATIVE TO RETAIL PRICES



Source: Rice Warner

The scenario is for an accountant (professional occupation) with $1,000,000 sum insured for Death and TPD for the 'any' occupation TPD.

List the superannuation funds: AustralianSuper, CBUS, First State Super, HESTA, HOSTPLUS, Kinetic, MTAA, REST, Sunsuper, UniSuper.

List of retail products: AIA, AMP, Asgard, Asteron, BT, ClearView, CommInsure, Macquarie, MetLife, MLC, NobleOak, TAL, Zurich.

Do current market dynamics tip the balance in favour of advised risk insurance outside of super? This is a question that is best answered at the specific, individual level of each client's needs and circumstances.

But when looking at the trend of pricing in isolation (the group segment increasing its premiums faster than retail) then the 'higher cost' argument which has prevented more retail direct sales may soon become redundant.

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