

JUNE 2017

## MEMBER COMMUNICATION AND ENGAGEMENT

### Submission to the Insurance in Superannuation Working Group

#### ABOUT US

Set up by consumers for consumers, CHOICE is the consumer advocate that provides Australians with information and advice, free from commercial bias. By mobilising Australia's largest and loudest consumer movement, CHOICE fights to hold industry and government accountable and achieve real change on the issues that matter most.

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## INTRODUCTION

CHOICE appreciates the opportunity to provide the following comments to the Insurance in Superannuation Working Group consultation on member communication and engagement.

There are frightening levels of disengagement with superannuation amongst consumers. CHOICE has heard stories of consumers receiving letters from their superannuation fund and dutifully filling them away, unopened. The temptation is to blame consumers for not paying attention to such a vital purchasing decision. Or give up in the face of significant behavioural barriers which see consumers delay making decisions about their future. However, the default and mandatory system places superannuation funds in a significant position of trust and this trust must be repaid by constantly finding new ways to better engage members and help them make better decisions about their future.

While there have been laudable efforts by individual funds across the sector, a consistent, industry-wide effort is required to improve rates of consumer engagement with superannuation. Principles founded on improving the accessibility of information, providing Key Facts Sheets and triggers for information provision are all good starting points. However, the sector needs to commit to a constant frame of user testing to ensure information provision remains relevant and engaging.

Key recommendations:

- That an enforceable code is created with clear obligations on industry
- That all member communications are user tested
- Introduce strong accessibility guidelines to ensure all Australians can access information
- Introduce member-specific Key Facts Sheets
- Incorporate digital tools within the on-boarding process and throughout the customer journey to improve understanding of insurance needs.

## INCORPORATE PLAIN LANGUAGE AND CONSUMER TESTING

1. Should the current policy design and disclosure standards (plain language and consumer testing principles) in the FSC Life Insurance Code of Practice be extended to insurance in superannuation communications?
2. Should the current policy design and disclosure standards (plain language and consumer testing principles) in the FSC Life Insurance Code of Practice be extended to all superannuation fund communications?
3. Should these requirements apply just to the PDS and Key Facts Sheet (KFS) only, or to all material containing insurance related information?
4. Should all insurance in superannuation communications be consumer tested?

The current policy design and disclosure standards in the FSC Life Insurance Code of Practice are a good starting point, although they should be extended to take account of the communications needs of the consumer, particularly those with special needs (e.g. people with a disability, non-English speaking background, Indigenous people and older people). This could be achieved by stating in the Code that “A fund must communicate with a consumer in a way that is appropriate to the consumer’s communications needs including those with special needs”.

Given community expectations about the availability of information online, specific reference could also be made to making information available online, and/or the most appropriate medium of communication for the individual member. Specific reference to ensuring web content meets the Web Content Accessibility Guidelines is necessary to ensure content is accessible to all Australians.<sup>1</sup>

The development of communications principles in a life insurance in superannuation code is a good opportunity to improve overall communications practices in the sector. The same principles, including plain language and consumer testing apply regardless of the content being communicated. CHOICE would like to reiterate its call that this Code be seen as an opportunity to lift standards across the superannuation sector generally and not limit its effort to insurance.

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<sup>1</sup> <https://www.w3.org/TR/WCAG/>

These principles should apply to all communications from a fund to consumers as they represent good practice. There is no sound justification for limiting the application of these principles to automatic insurance members only.

Communication testing should be seen as a task which is ongoing; there is a constant need for refinement throughout the customer journey to improve understanding. For example, the Key Facts Sheet is a good attempt at a consumer-centric piece of communication; however there is scope for significant enhancement through user testing to ensure it is easily understood and contains the information consumers would find most relevant.

## DEVELOP A STANDARD KEY FACTS SHEET

5. Would consumers benefit from a simplified statement about the insurance offering a superannuation fund provides, and if so, when should it be provided to them?
6. Would the introduction of a KFS assist consumers in comparing the insurance offerings between superannuation funds?
7. How can funds encourage members to consider the full PDS when making a decision relating to their insurance?
8. What key pieces of summarised information should be contained in the KFS? Should the KFS be consistent with respect to content and format across the industry? If so, what sections should be consistent?
9. Should the KFS include member specific information or be limited to fund specific information?

Research has shown that short summaries such as Key Facts Sheets (KFS) far outperform lengthy Product Disclosure Statements (PDS) when it comes to consumer comprehension.<sup>2</sup> However there remains significant challenges in deciding what should form part of a KFS and when the right times are to push it to consumers to improve reading rates.

Research has also found KFS when done right are useful as comparison tools as they allow consumers to quickly compare key terms without having to read the entire PDS of each policy.<sup>3</sup>

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<sup>2</sup> Harrison, P., Hill, L., and Gray, C., 2016, Confident, but Confounded: Consumer Comprehension of Telecommunications Agreements, Australian Communications Consumer Action Network, Sydney. P.44

<sup>3</sup> Skelton, R.A., 2015, 'The Impact of Home Loan Key Facts Sheets on Borrowers' Comparisons of Loan Costs', QUT, available at: [http://eprints.qut.edu.au/91053/4/Ross\\_Skelton\\_Thesis.pdf](http://eprints.qut.edu.au/91053/4/Ross_Skelton_Thesis.pdf)

Product comparability should be a priority in a consumer centred market. Comparability requires consistent information and consistent presentation across industry. In complex markets, sometimes the only way to achieve genuine comparability is through mandatory information provision requirements, ensuring consistent terminology, inclusions and layout of information. This should not detract from the ability of market participants to provide additional, customised information, but it does create a baseline for comparison. Without easy comparison consumers find it difficult to compare and find a suitable offer in terms of both price and terms.

Funds need to develop a better sense of relevance of a piece of information before pushing it to consumers. The belief that consumers have the time or inclination to read over 100 pages of a PDS should be abandoned. Funds should be looking for new and innovative ways to communicate information to consumers, beginning with the provision of a consumer tested KFS.

Ideally, a KFS will have information covering:

- Relevant annual premium price,
- Types of cover, described in plain language,
- Key terms,
- Relevant benefits, and
- Exclusions.

Given one of the main objectives of a KFS is to enable comparability across products it would be counterproductive to allow funds to present this information in an inconsistent manner. The approach taken in the prototype is a good starting point as it provides information on the key inclusions across the sector and presents the information in a consistent format.

A KFS should include member specific information where it will enhance consumer understanding. For example, the prototype KFS is lacking any premium pricing and benefit payment information. This could be added if funds directed consumers to generate a KFS by entering some key demographics (e.g. age, employment status). A similar degree of customisation is available for a home loan KFS.<sup>4</sup> The alternative is leaving consumers to trawl lengthy tables in product disclosure statements or insurance guides in order to determine the premium and benefit levels that apply to their situation.

There are a number of specific enhancements which could be made to the prototype KFS, including:

- Providing clearer information about a consumer's right to complain and information on how to escalate a complaint to an external dispute resolution scheme,

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<sup>4</sup> [http://www.austlii.edu.au/au/legis/cth/consol\\_reg/nccpr2010486/sch5.html](http://www.austlii.edu.au/au/legis/cth/consol_reg/nccpr2010486/sch5.html)

- the benefit of nominating a beneficiary,
- average claims handling timeframes, and
- fund and benefit specific claims payout ratios.

## INTRODUCTION OF AN INSURANCE WELCOME PACK

10. Will an Insurance Welcome Pack increase member engagement and improve understanding of their insurance cover?
11. Should the Insurance Welcome Pack be sent with or separately to the Superannuation Welcome Pack?
12. In what format should the Insurance Welcome Pack be delivered to members?
13. How can superannuation funds ensure the Insurance Welcome Pack is delivered to members via their preferred communication channel?

Given the overwhelming evidence on member disengagement with superannuation and bundled insurance, funds should be looking for more innovative ways to reach members rather than an 'Insurance Welcome Pack'. Sending this pack separately to other communications alone is unlikely to significantly boost readership and comprehension. Funds should be looking to communicate information in an ultra-simplified form, simultaneously through multiple communication channels. For example, other mechanisms, such as a welcome call, are likely to bring more immediacy to a consumer's engagement with their insurance and prevent the common behavioural response of delaying making a decision or not engaging with complex information. Any welcome call or communications should be focused on clarifying the product clients hold, not selling additional products or encouraging the take up of additional insurance. Staff responsible for welcome and ongoing communications should not be given sales-based performance metrics or any payments to encourage sales.

Superannuation funds should be constantly testing and refining how this information is provided to determine the most effective communication channels for individual members.

## INTRODUCTION OF STANDARDISED LANGUAGE AND TERMINOLOGY

14. Should the industry develop standard language and terminology to assist members to better compare products?

15. Would standardised terminology reduce the risk of members failing to understand a product or policy's key features and limitations?
16. What are the main terms and language that industry should focus on to lift consumer understanding?
17. What period of time should the industry be given to implement changes?
18. Should the standard terminology only apply for insurance terms and benefits available to automatic insurance members or should it apply to all insurance products offered through superannuation?

Standardisation of language and terminology will greatly enhance consumer comprehension and improve comparability across products. Standardisation of terminology has the potential to reduce the risk of a consumer failing to understand a product's key features and limitations, however if the underlying terms of the policies are not also standardised then consumer confusion is likely to continue. In the long-term, standardisation should reduce complaints or other issues when claims are made. We are aware that there will be further consideration of this level of standardisation in an upcoming consultation.

The principle should be to standardise all terminology where possible in order to improve consumer comprehension. Standardisation should be pursued across 'automatic insurance members' and generally across all superannuation products. This will make it easier for consumers to compare types of cover between default and choice products when weighing up a switch.

Lengthy timeframes should not be required where the changes simply relate to a change in naming conventions. We would expect these types of changes to be possible within 12 months of Code approval.

## DEVELOP A MEMBER EDUCATION WEBSITE AND/OR DEVELOP MINIMUM EDUCATION REQUIREMENTS FOR SUPERANNUATION FUND WEBSITES

19. Do you support the development of online member education tools focused on improving financial literacy, including education on insurance?
20. Who would be the best provider of information? Should government sites such as ASIC's MoneySmart be further developed? Should existing superannuation fund

websites be further enhanced or developed?

21. What tools would be useful to give you confidence in understanding and evaluating your insurance and the options available to you?

There is clearly scope for renewed effort to educate consumers about their insurance needs and financial literacy more generally. While ongoing efforts may sometimes result in relatively small gains, this is not a reason to give up on engaging consumers. CHOICE's recent qualitative research into consumer engagement with superannuation yielded a number of insights to assist in a rethink of how to educate.<sup>5</sup>

For example, our research found that 'people don't know what they don't know'. Therefore an approach to education needs to start with the basic step of more clearly signposting the fact that consumers are paying for insurance within superannuation. The next step should be moving consumers through an engagement model which lets them know what their insurance is for, helping them decide if their cover is sufficient.

Our research also found that people are looking for answers, not more 'information'. People want to be directed to making the right decisions, but they do not want to up-skill or be 'educated'. Most funds offer digital tools which start to address this issue; however they are often disconnected from the on boarding process and hidden away on websites. Superannuation funds should be exploring engaging ways to put these tools in front of consumers.

The CHOICE research also explored who should provide this information. A consistent issue was uncertainty and lack of trust around superannuation. Consumers are uncertain about whether to trust their superannuation fund, with some pointing to the lack of personal communication (e.g. verbal rather than in writing) with their fund.

Much of the existing communication from superannuation funds failed to resonate, especially with younger consumers. Images of happy grey haired couples walking along the beach was something many pre-retirees (55+) couldn't identify with, let alone younger consumers.

The research identified a need for a safe place to go for independent, unbiased advice that will work in people's best interests. Consumers wanted a trusted advisor to break down the jargon and help make decisions quickly and easily.

<sup>5</sup> Pollinate, 2016, 'Project superpower – informing a strategy to engage people with their superannuation', research commissioned by CHOICE

CHOICE has found that a significant builder of trust is to let a consumer know when they do not need to buy a product. For example, our 'Do I Need Health Insurance' tool gives consumers unbiased advice about whether they actually need health cover for financial reasons, helping cut through the complex mix of tax incentives and penalties, and associated marketing campaigns from insurers and commercial comparison websites.<sup>6</sup> Funds could build significant trust by having an honest conversation with a consumer about factors such as:

- The impact of multiple insurance and benefits of consolidation,
- How much coverage they will really need in the event of their death, especially if they do not have dependents, and
- The adequacy of other protections such as the disability pension, workers compensation, or self-insurance through personal savings.

DEVELOP STANDARD, MEMBER FOCUSED EVENT BASED COMMUNICATIONS GUIDANCE OR RULES

22. Should the industry define the key events that will trigger the requirement for superannuation funds to actively communicate with members about their insurance arrangements?
23. If so, what should these key events be (e.g. entry into the superannuation fund, exit, when employer SG contributions cease or other events)?
24. Do you foresee any other challenges with requiring superannuation funds to communicate to members following certain key events?
25. Should minimum standards apply across multi-channel communication or should they be limited to paper only initially?

As identified in the ISWG's first discussion paper on account balance erosion, it is clear that funds have enough data on members to tailor communications to need. Entry to a fund is an ideal time for the key communication to focus on multiple insurance cover and consolidation. A cessation in payments is an ideal trigger for talking to consumers about possible changed insurance needs and perhaps even targeted communication about broader superannuation needs (e.g. voluntary contributions to cover absence from paid employment due to raising children, or employer non-payment). CHOICE strongly supports the creation of a list of key events which will trigger communication with members.

<sup>6</sup> <https://www.doineedhealthinsurance.com.au/>

While funds will not always know the exact reasons for an event, such as contribution cessation, opening up lines of dialogue at these key moments will help consumers discover their changing needs.

Funds should be testing multi-channel communication to discover which form is the most relevant to individual members. An over-reliance of paper based communication will limit the reach of these messages.