KPMG

A COVID-19 call to action for the Australian insurance and wealth sector

Responding to a new client and member reality

Stakeholder Centricity

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KPMG.com.au

Executive Summary

The insurance, super and financial advice consumers are showing early signs of refusing to return to their pre-COVID-19 ways of interacting with their financial service organisations.

The Conscious Consumer in the New Reality

There is a new reality emerging for all of us as we recover from the impacts of COVID-19. In mid-May we surveyed over 1500 consumers on different aspects of their lives and their relationships with insurance, superannuation and advice products and services. KPMG International then performed the Consumers and The New Reality survey across 12 different countries, including Australia, in early June that focused on changing consumer needs, behaviours and expectations – both reports delivered the same findings. The financial impacts from COVID-19 were significant and far reaching. Consumer spending, attitudes and sentiment to products and services, preferences to propositions and service channels have all been affected. For many Australians, this has first and foremost been an economic crisis, but one where both their lives and their livelihoods are in need of protection.

Organisations need to react to these new circumstances and changing consumer expectations. Consumers are showing early signs of refusing to return to their pre-COVID-19 ways of interacting with organisations. Organisations will need to adopt new ways of providing customer service as they build out their transformation programs and develop more customer-centric brands. Not only is the post-COVID consumer more empowered in our digital-first, data-centric world, but they are also increasingly driving an agenda that is about value-for-money, trust and redesigned propositions that will flex to their needs and circumstances. Consumers are scrutinising their existing propositions and, in many cases, expecting a complete re-think and transformation of what they are being offered.

COVID-19: Consumer Impacts

A twin crisis in Australia, led by widespread economic impacts, followed by health impacts.

Three types of consumers have emerged during COVID-19:

10% 'surviving' through the crisis with significant financial impacts.

30% 'preserving' who have experienced some impact and likely to be spend conscious.

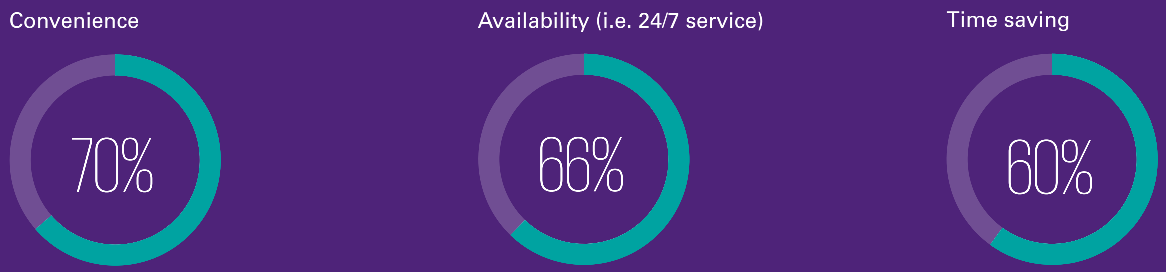
60% able to maintain a 'steady' state with little impacts.

All three types of consumers are empowered and more discerning of insurance and wealth services, seeking better value and flexible propositions.

2 in 3 remain optimistic about recovery – confident or neutral in their financial position recovering the next six months, though economic indicators point to a longer term recovery.

The digital accelerator

% Top 3 digital benefit



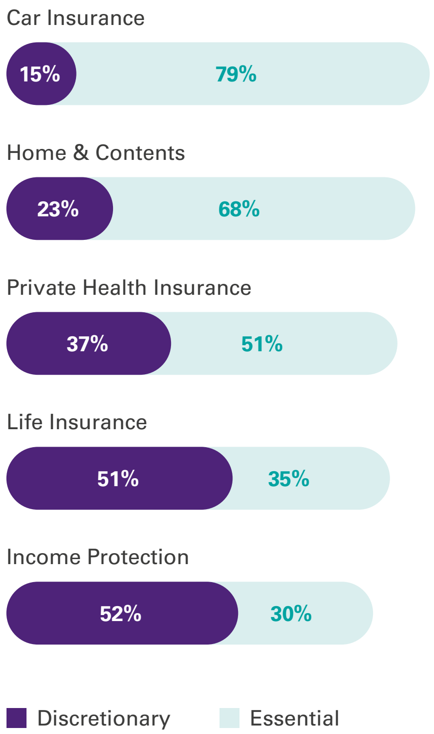
80/20 Digital Divide
Digital will adequately service 80 per cent of consumers with the remaining 20 per cent preferring traditional contact methods.

Generational Divide:
COVID-19 is narrowing the divide between the below 40's and above 65 year olds but there remains a difference in perspective. As many as one in three of over-65s need to be convinced that digital leads to better quality engagement.

Societal purpose:
An acceleration of a pre-COVID-19 shift towards a digital-first world and growing focus on purpose and community care brought about by global shared experiences.

Reshaping Insurance Offerings

As a result of COVID-19 which products would you consider to be essential vs discretionary:



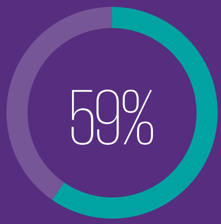
Non-essential Insurance:
Only few insurance categories are seen as essential (car and home & contents). Personal health insurance is considered discretionary despite 41 per cent recognising it is more important due to COVID-19.

Insurance Revenues at Risk:
Many consumers are looking for lifestyle changes to not need insurance indicating a likelihood to cancel or suspend policies in the next 12 months. Life insurance and income protection were seen as the most discretionary and may see reduced future revenues.

Radical Shift Required:
A third of insurance holders are looking for new propositions built on product/service flexibility, better value for money and omni-channel deliveries and with prevention features.

Claims 'Moment of Truth':
A good claims experience has become more important to two thirds of consumers in deciding to continue a policy.

Innovate superannuation and pension offerings



Agree that it is more important for Super Fund(s) to provide them with financial advice.

Digital Member Engagement

Members are seeking better engagement with providers with at least two thirds seeking for this to be digital.

Service Differentiation

Despite financial pressures, there is substantial apathy in deciding between funds. Fund differentiation is not well understood.

Advice and Education Services

36 per cent of members identified a need for better advice and education services from their super funds. This is a top area to address to support member engagement and offer better value in future propositions.

Retirement and Financial Goal Impacts

42 per cent impacted with likely downstream consequences to risk attitudes. Opportunity for organisations to target offers to capitalise on market conditions. As many as 60 per cent agreed that they need to review investments to better manage risks and support future savings.

"It is more important to receive financial advice as a result of COVID-19."

58% Agree	32% Unsure	10% Disagree

Value for money financial advice

Increased Advice Needs

COVID-19 has driven an increased need for advice (58 per cent agree) but only 32 per cent of new consumers are willing to pay for it. Consumers are seeking advice that is accessible, affordable and personalised. Digital will play an important role in making this happen.

Personal Engagement

Personal engagement with a financial adviser drives a perception of value and higher levels of satisfaction – above 70 per cent.

Value Perception Challenges

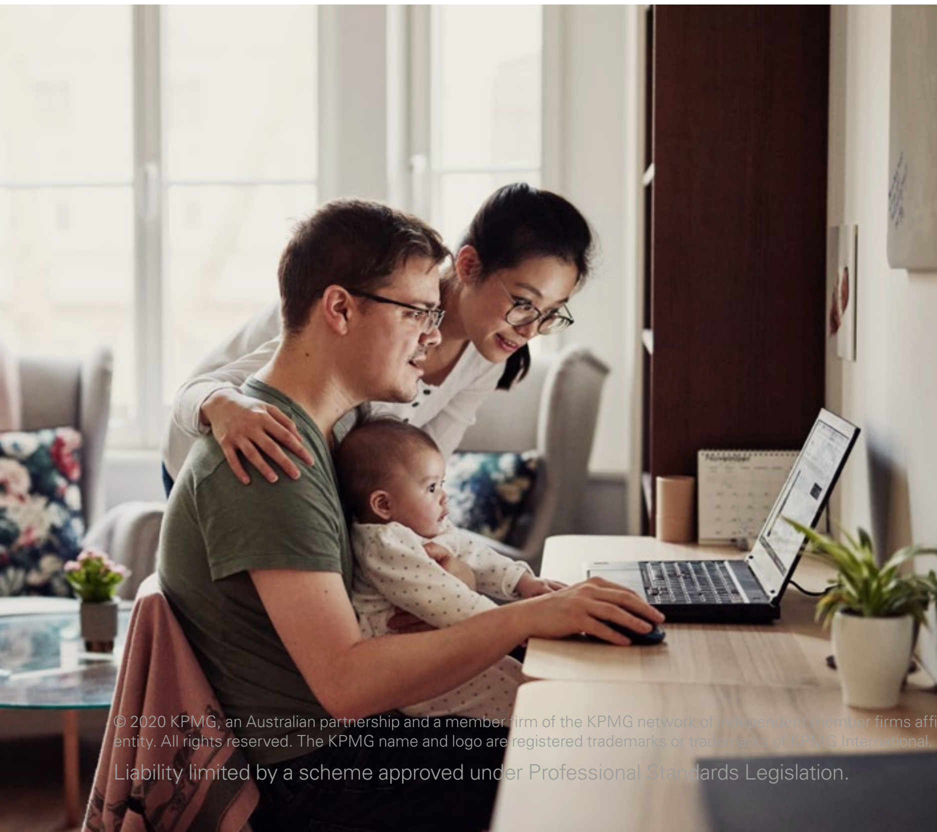
The majority remain not advised and have a low perception of the value of advice and many see it as one of the most discretionary services.

Research Methodology

Our research for this paper is based on findings obtained from a survey undertaken in May 2020.

Our quantitative 15-20 minute survey was hosted online and completed by 1512 participants, sourced via one of KPMG's accredited online research sample providers. To qualify for the survey, respondents needed to meet the criteria of being responsible for making the decision for at least one of the following products or services in the past six months:

- Superannuation Fund or Pension Account
- Financial Adviser/Planner that you pay for
- Private Health Insurance
- Home/Contents Insurance
- Car Insurance
- Life Insurance with a lump sum payment (e.g. Death, Total & Permanent Disability, Trauma/Critical Illness)
- Income Protection Insurance (or Disability Income Insurance) – with monthly payment for a nominated period



Sample Breakdown

Age

41% Under 40 years
NUMBER 613

35% 40-59 years
NUMBER 527

25% Over 60 years
NUMBER 372

Gender

49% Male
NUMBER 743

51% female
NUMBER 768

Financial products held/or held in last 6 months

62% Super Fund/Pension Account
NUMBER 932

21% Financial Advisor/Planner
NUMBER 315

93% Any Insurance
NUMBER 1407

Years until expected retirement

21% Currently retired
NUMBER 318

12% Within 10 years
NUMBER 179

11% Within 5 years
NUMBER 169

52% More than 10 years
NUMBER 791

COVID-19 impacts

23% Working hours reduced
NUMBER 354

14% Salary/wages reduced
NUMBER 213

8% Job loss
NUMBER 127

56% None of these
NUMBER 847

The Conscious Consumer in the New Reality

Many of the attitudes, behaviours and purchasing habits that consumers adopted during the immediate impacts of COVID-19, will become permanent as we shift to a new reality.

COVID-19 presented the biggest global health crisis the world has experienced in the past 100 years. Now that the spread has been relatively contained in Australia, we must face the economic impacts of the lockdown in years to come. This will have profound impacts on how businesses will need to operate and the way consumers think, feel, behave and buy. Businesses in the financial services sector will need to respond to changed attitudes, behaviours and purchasing habits which impact consumers' channel preferences, product and investment choices and sentiment towards their financial services providers.

Research indicates there may be three types of consumers that emerged during COVID:

Surviving

10% of survey respondents

Likely to have lost their job and have experienced a significant drop in income, is reliant on government assistance. May completely stop any discretionary spend. More concerned about their financial situation than their health, and likely to be younger, or those in part-time work.

Preserving

32% of survey respondents

Likely to have had income impacted through reduced hours or wages (32 per cent of survey respondents), and may be reliant on some government support. Likely to limit and/or carefully scrutinise discretionary spend, and look for ways to preserve cash.

Steady

58% of survey respondents

Little impact to financial situation, and less concerned with spending but may limit discretionary spend anyway, given general uncertainty about future economic outlook. May also be more focused on maintaining and preserving their health.

Key trends shaping the post-COVID consumer

Back to basics

- Consumers are worried about job security and the long term impacts of COVID-19 on the economy.
- Consumers are prioritising basic needs, and are being mindful of what they're buying and identifying as essential.
- For consumers who lost their jobs, or were otherwise economically impacted, focus is on 'getting through' this time.
- Focus on safety, savings and decreased risk appetite for investment.

More comfortable with digital as the new normal

- Lockdown forced many Australians to move to digital channels in order to connect for work, shopping and social purposes. Many older Australians were required to learn how to use digital tools they wouldn't have previously used.
- Significant growth in online retail and using digital to access services as consumers feel this is safer and more convenient.
- Greater acceptance of digital even though many experienced initial discomfort due to unfamiliarity.

Socially isolated, valuing personalised connection

- Despite embracing new digital tools, lockdowns have left many consumers feeling socially and mentally isolated.
- Consumers have noted the importance of physical interactions in their lives.
- Increased value placed on tools and services that provided personalised connection or a direct, ongoing point of contact.

Focus on health and wellbeing

- Consumers, particularly those in older age groups, have a renewed focus on maintaining their physical and mental wellbeing.
- Increased emphasis on precaution and/or prevention rather than treatment.
- Increased understanding and awareness of health insurance and need to have appropriate cover.

Willing to act for greater social good

- Pandemic has shifted focus towards needs of community as a whole.
- Willing to share data for a social benefit.
- Increased desire to support local and sustainable brands and investments as opposed to big business.

Expect more from financial service providers

- Increased expectation that service providers will be more flexible.
- Quality of service and how their provider meets their needs is likely to influence consumer loyalty.
- Focus is on the value they believe they are getting from their provider.

COVID-19 Consumer Impacts

Despite an economic crisis Australian consumers are emerging with optimism.

An economic crisis in Australia

Our research highlighted the scale of this crisis and the financial pain that many consumers are experiencing. As Australia entered lockdown, it became a crisis that put more than just their health at risk, it affected their livelihoods as well. There were more people who suffered from adverse financial impacts than those who reported direct health impacts:

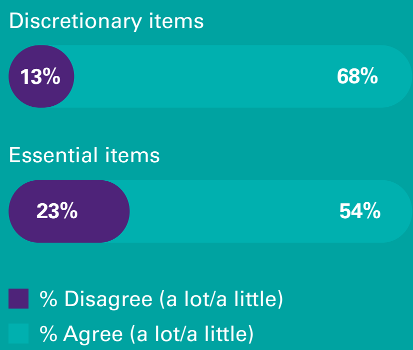
Many health impacts, including mental health, can take longer to surface so the full scale of the impacts will not be known for some time. But the financial consequences of this crisis cannot be underestimated. Nearly 10 per cent of those surveyed have lost their jobs, while over 30 per cent had either their working hours or salary reduced.

Spend conscious consumers

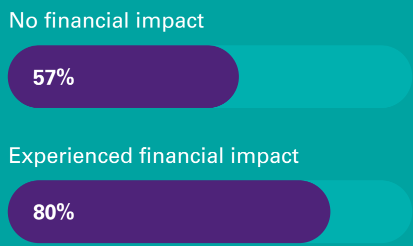
The financial impacts have changed spending patterns. Consumers have become more conscious, particularly with discretionary items, often holding off purchases or searching for better value. Consumer spending on insurance, financial advice and other wealth provider services will also be re- evaluated by many, including those who haven't had a direct financial impact. More than half of those surveyed categorised a number of insurance lines, as well as financial advice, as discretionary spending.

The picture is more extreme for those with financial impacts where four in five have reduced their discretionary spend.

% Agree/Disagree with statement: I have reduced the amount of money I spend on



Situation of those who say they have reduced discretionary spend



Two in three Australians remain confident about the future despite many indicating impacts in their financial circumstances, health and social and community engagement.

Optimistic for recovery

It was surprising to see the high level of optimism for a recovery of their financial situations, this may in part be due to the size of the Australian Government's COVID-19 fiscal stimulus packages, or the continued gradual easing of restrictions.

More than two in three Australians remain confident or neutral to the prospects of recovery in the next six months despite many indicating adverse impacts to their financial circumstances.

Reasons for confidence

Unchanged circumstances
22%

Forsees a recovery
19%

Job retained
18%

Strong financial position / security
12%

Reliable ongoing income
10%

Reasons for lack of confidence

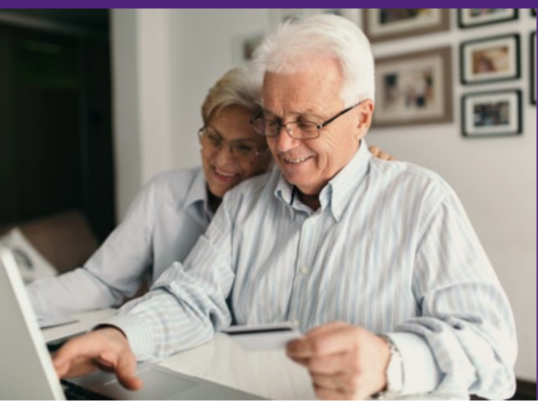
Negative economic outlook
26%

Unemployed / difficulty finding work
16%

Reduced super, savings or investments
11%

Reduced income
9%

Uncertain employment status
5%



"My household income has generally remained the same"

"I am on a fixed income with set expenses which do not vary"

"I am still in fulltime employment"

"It will take much longer than six months for the economy to recover"

"My superannuation has decreased as have the value of my shares"

"I'm worried about my job security"

Flexibility and value for money

When asked about product expectations 73 per cent of consumers want flexibility in products and services to match their changing needs. This was consistent for all insurance, superannuation and advice provider types. Expectations for enhanced communication (eg digital channels) and better value for money closely followed.

% Agree with "As a result of the COVID-19 crisis, I expect my provider to…"

Be flexible in the products & services they offer to me as my needs change
73%

Be more flexible in how I interact with them (i.e. online, digital)
67%

Offer better value for money
66%

Respondents also called out expectations of support through COVID-19 from the insurance and wealth providers:

"Providing discounts to reflect the situation and the reduced risks from being isolated"

"Tailored solutions, such as car insurance based on the distance driven"

"Offering more services – solid and helpful advice and better investment strategies"

"Stop fees coming out of the super fund, as there is no contribution going in and super keeps going down"

"Financial Planners need to (more than ever) customise advice and demonstrate independence"

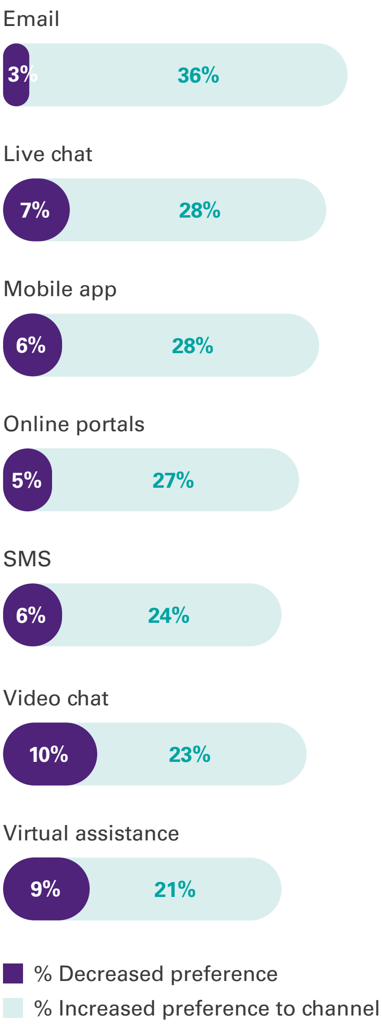
"Being more proactive and keeping in touch with clients to see if they need anything"

The digital accelerator

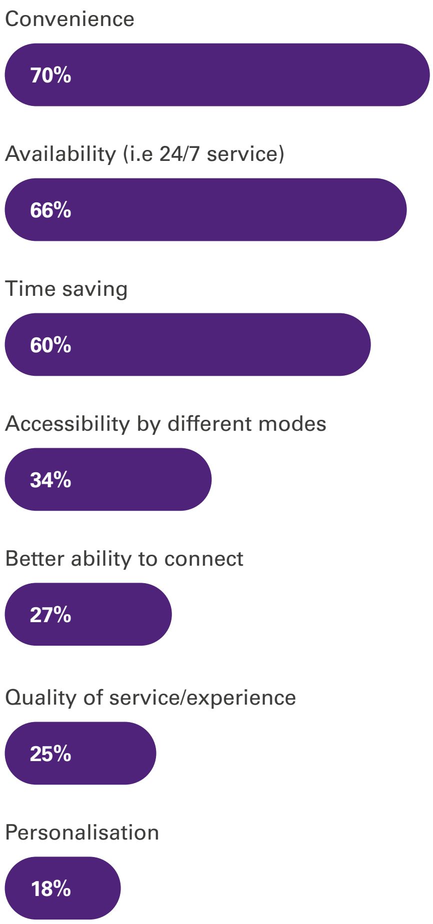
COVID-19 has been the great accelerator of digital transformation.

Even before COVID-19, consumers of financial services were leaning into digital. The onset of the pandemic saw digital channels become the main point of interaction. Consumers of all ages now see digital as the 'new normal', but the perceived benefits of this shift differ across ages. All consumers now believe digital channels offer greater convenience and time savings – and all digital options and features (eg email, mobile, virtual assistance, mobile apps) have gained preference. Insurers that have invested in digital capabilities will be better positioned to meet this increased use of a wide range of digital avenues.

% Preference for channel



% Top 3 Benefit



The digital 80/20

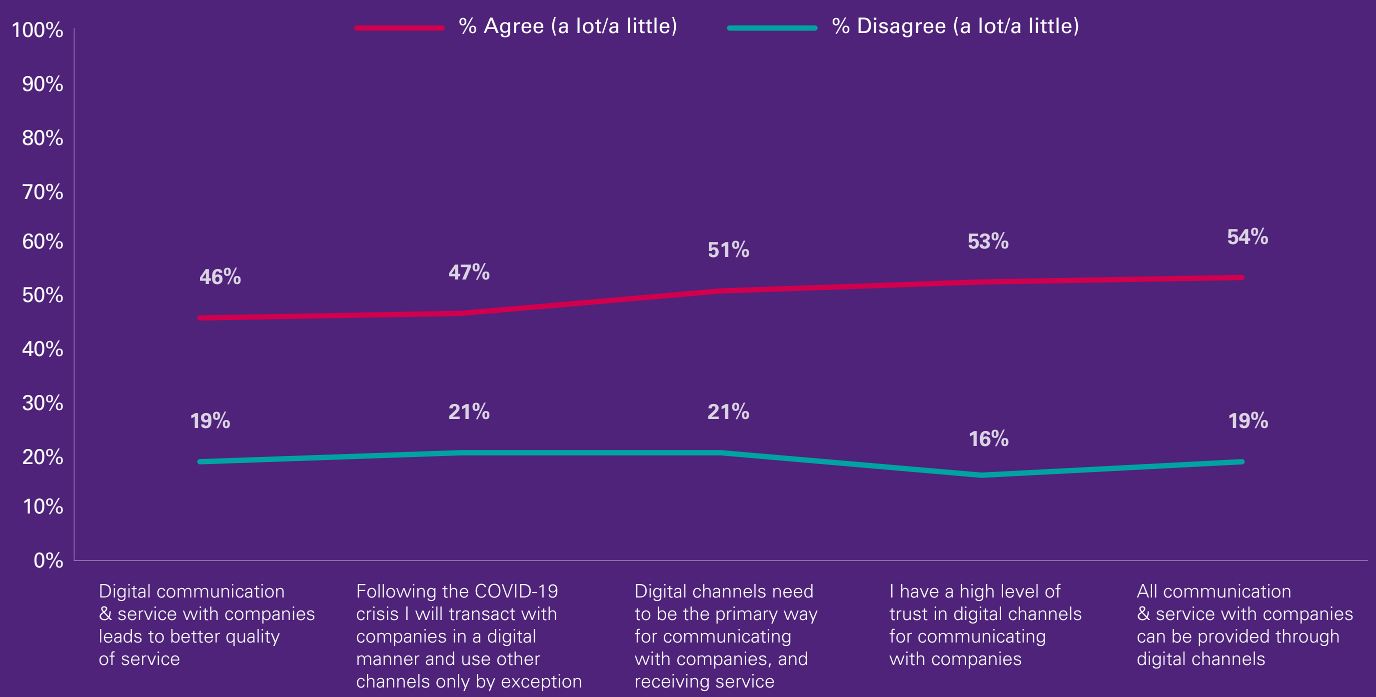
Consumers who haven't engaged digitally before, but have now as a result of COVID-19, are realising the benefits. Only ~20 per cent of consumers disagreed that communication and services with companies could be provided digitally and similar numbers still prefer traditional channels (telephone or face-to-face). Financial services providers should direct their channel focus in to reflect this split – design and deliver digital-first for the 80 per cent while servicing the minority through traditional channels, and helping them transition where possible.

Digital will service 80 per cent of Australians, with the remaining 20 per cent still preferring to use traditional contact methods

"The less contact, the better. Digital is the way to go"

"I've now gotten used to digital ways to shop, learn and communicate"

Agreement with digital communication statements



Develop appeal and trust with consumers for further digital growth.

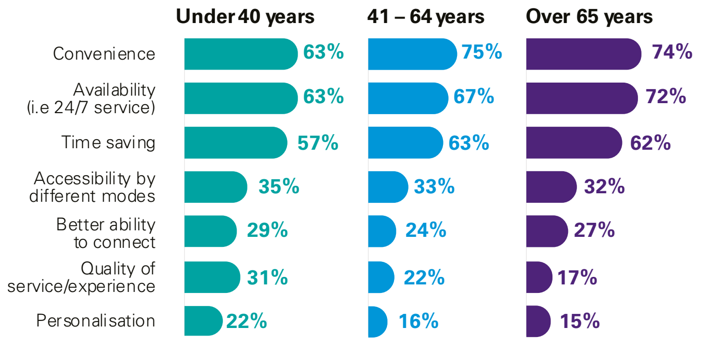
The generational divide

There are distinct differences in preferences and drivers to use digital channels between the generations. Younger consumers (<40 years) prefer using digital channels and most under-40's believe that connecting through digital leads to better quality engagement, while only 29 per cent of over-65's agree. The differences between how these generational groups prefer to engage with digital channels provides a roadmap for future technology investment decisions made by financial services providers.

Digital = convenience

Digital services are perceived to provide increased convenience, 24/7 service availability and the ability to save time. This reinforces the fact that consumer demand for ease and convenience will remain paramount. Younger consumers also believe that digital channels offer better quality of service and personalisation. To service to this segment, providers must seek the ability to tailor and personalise interactions as part of their future digital strategies.

Perceived benefits to digital channels v face to face, by age

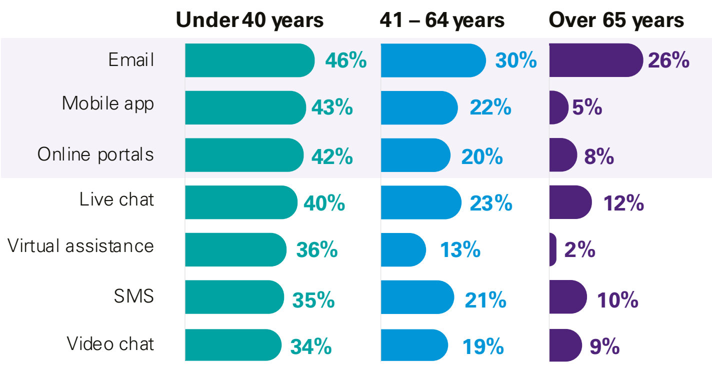


Omni-channel digital experience

A clear shift towards digital is rewriting how consumers are interacting with their providers. Consumers are increasingly seeking a range of digital services to meet their needs with all channels having gained in preference due to COVID-19. Consumers over 65 years old show a strong preference to email while those under 40 are balanced across various digital servicing methods.

Businesses should provide more options in ways to engage for their consumers, concentrating more on offering full digital and semi-digital alternatives and supporting omni-channel engagement. The intermediary broker or planner business models also need to consider how they bring digital-first experiences into their customer interactions targeted to the types of customers they serve.

% of consumers whose preference for digital channels has increased, by age



The digital growth agenda

Consumer's growing digital capability and emerging technologies have been consistent factors in shifting the value chains in insurance and wealth, delivering benefits to users while allowing providers to scale their services in a profitable way. COVID-19 has accelerated both these factors. A focus on safety and stability will change how consumers value their providers' digital offerings as now it allows them to access services from the comfort and safety of their home. The need to uplift digital capabilities is now and the digital growth imperative has never been clearer. Providers will need to ensure that new digital capabilities can be offered sustainably at scale, while continuing to create new value for members and providers.

Reshaping Insurance offerings

The quest for relevance.

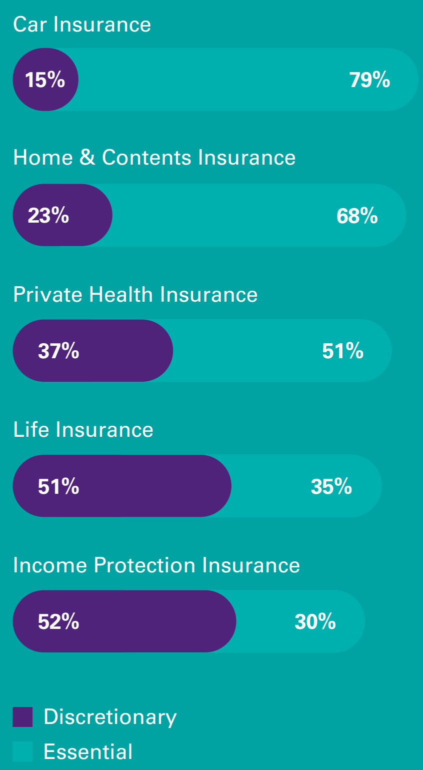
Only two insurance categories considered essential

Only car insurance (79 per cent) and home & contents insurance (68 per cent) are considered essential services by policy holders – surprising given cars were not used during the crisis and people were working from home. Life insurance and income protection are at the lower end of the spectrum – viewed as essential by only 35 per cent and 30 per cent of policy holders respectively. In the context of COVID-19, about 50 per cent of insurance holders who had their salary reduced due to the pandemic, and 44 per cent who lost their jobs, now value these products more than before. This spike signals a lack of understanding of the policies and their eligibility criteria. COVID-19 also seems to triggered a sense of necessity among the Australian public, since 41 per cent of insurance holders say they think PHI is now more important to hold.

Lifestyle changes

Between 26 and 35 per cent of insurance holders are looking to lifestyle changes to no longer need insurance. These percentages are across both essential and discretionary products, with PHI and travel rating highest and third party car insurance lowest, posing significant challenges for insurers to sustain future revenues, or realise organic growth. This indicates that most product categories need to be actively sold by insurers. In a time of spend conscious customers and in combination with a changing legal environment (eg anti- hawking; add-on selling) strong brand positioning and attractive value-add propositions will be crucial in the new reality.

As a result of COVID-19 which products would you consider to be essential vs discretionary :



Insurance revenues at risk in next 12 months

When asked about the intent to cancel or suspend their policies, 38 per cent of income protection and 25 per cent of life policy holders said they are likely to do so in the next 12 months as a result of the impacts of COVID-19. The fact that these products are also considered as non-essential will likely contribute to cancellations.

These products are now seen as more important to those who have had their job impacted, as people may have felt the impacts of losing income, coupled with health concerns from the virus and need for adequate protection. To a lesser extent other product categories are also at risk of cancellation in the next year. With this context insurers should assess their retention strategy. They may need to consider offering financial relief since many consumers agreed that this is something the insurers could do better during this crisis. In terms of methods of support, consumers rank the highest as: discounts, pause of premiums and provide rebates on paid premiums.

% Policy holders likely to cancel policy in next 12 months a result of COVID-19

Products and services need to be reshaped

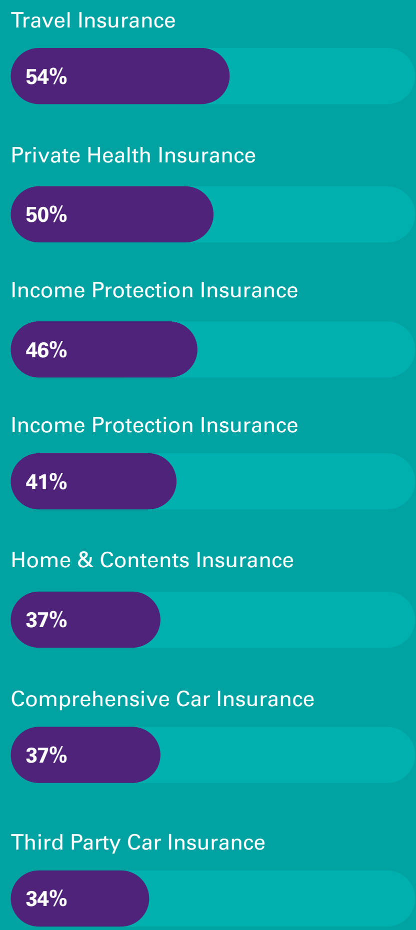
Product innovation is needed to thrive

Many consumers think insurance products need to be rethought to meet their needs. This is especially true for travel and private health insurance – respectively 54 per cent and 50 per cent agree a reshape is required in terms of product, features and pricing. This data shows that these insurance lines have felt the greatest disruption from COVID-19 (eg travel restrictions, pandemic exclusions, suspension of elective surgeries and other health allied services). Also the relatively high percentages regarding IP (46 per cent) and Life (41 per cent) products give reason for caution, especially since they are seen as non-essential. For insurers this means they need to listen to their customers to understand their needs and expectations. Then use these insights to drive innovation in their offerings.

Prevention services expected

COVID-19 fuelled customers' expectations of their insurers offering prevention services – customers want to reduce the likelihood of a claim in the future. PHI and travel stand out with 48 per cent and 46 per cent, respectively, of insurance holders having this expectation, while other categories like life, IP, comprehensive car insurance and home & contents show percentages around 40 per cent. For the younger age groups almost half are expecting these services. These high percentages show a clear starting point for proposition innovation – broadening the scope from traditional 'protection' products to 'prevention' services. In this time where everything has become digital, there are new prevention technologies such as DNA testing, tele-health solutions, smart sensors in home, car and body, location based (travel) alerts, etc. The use of data and the concept of open insurance (like open banking) will accelerate these initiatives.

% Agreeing product/services will need to be reshaped



A better deal:

"If certain services are not available due to COVID they should not be including it in their premiums until they are able to be used"

Adapt service offerings:

"Lots of flexibility and options to accommodate all customers in varying situations"

Flexibility is key

The changing nature of the new conscious consumer, means we should expect an increase for pay-as-you-use insurance specifically in the general insurance business. Our research found that 73 per cent of insurance holders agreed that product/service flexibility is as important as providing better value for money (71 per cent) and flexibility to across channels interact (69 per cent). The desire for product flexibility is linked to assets that have been idle due to COVID-19 despite customers still paying full premiums (e.g. premiums on cars or PHI). Also the expectation to interact flexibly across channels, will be a challenge to insurers given they will be benchmarked against the more seamless 'click-call-face' interaction channels offered in sectors like retail.

As consumers recalibrate around what they consider to be essential, they are taking action to review and make changes to their plans and policies. This is especially the case in the <40 years age group, they show no hesitation when it comes to adjusting their insurance policies as a result of changing circumstance. This further stresses the importance of insurers to provide a flexible solution. Since the younger generation could add future revenue, responding to their needs is crucial in building a sustainable customer base.

Insurers who adopt a first mover strategy in transforming their business and operating models to this new reality, position themselves well to become the winners post COVID-19.

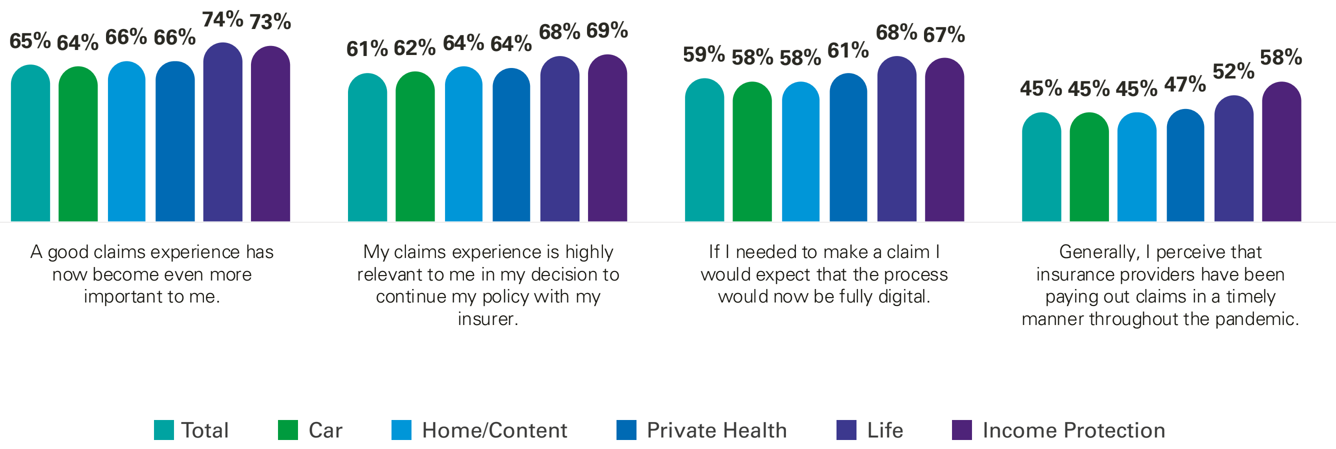
Claims – the moment of truth

Insures need to enable a good claims experience. Not only has this become more important to two thirds of consumers, it is also what consumers consider when deciding whether to continue with an insurance policy. Currently the majority believe insurance providers are not paying claims in a timely manner during COVID-19. In particular for income protection and life policies a good claims process is valued significantly more than any other insurance product or service, given these products are also seen as discretionary.

The ease of making claims, including accessibility to customer service and speed of processing are critical elements of a good claims experience. This means effective digital solutions to drive efficient claims processes to provide a seamless customer experience and satisfy the ~60 per cent of people who expect the process to be fully digital.

It is now pivotal for insurers to transform claims with an end-to-end process perspective. The first step for this transformation is to digitise the notification process including the related document uploads and communication with all stakeholders. Making that part of the process easier will contribute to customer experience excellence and the likelihood of retention after the claim.

% Agree/agree a lot with statement by insurance types held



Younger consumers want prevention services from private health insurers

Prevention services is a clear expectation and should be an area of focus for insurers – 48 per cent of respondents see this as an expectation in private health, this percentage rises to 54 for those under 40. This is a reflection of the proliferation of data and predictive analytics applications in health. Younger consumers are more likely to engage with new technologies such as wearables, health tracking and preventative services. They are also more likely to share their data in return for improved, tailored offers and reduced premiums. Reshaping offers and increasing the use of these technologies is no longer optional, and should be prioritised in any insurer's transformation agenda.

Claims process:
"Provide real, effective and efficient claim settlement services without delaying time or payment"

48%

Expected **PHI to offer prevention services;** highest of any other product category

PHI #1

Most important of all insurances to hold in the context of COVID-19

Innovate superannuation and pension offerings

Differentiation between funds is not well understood but consumers appear to display significant inertia towards their super and pension providers despite lower satisfaction.

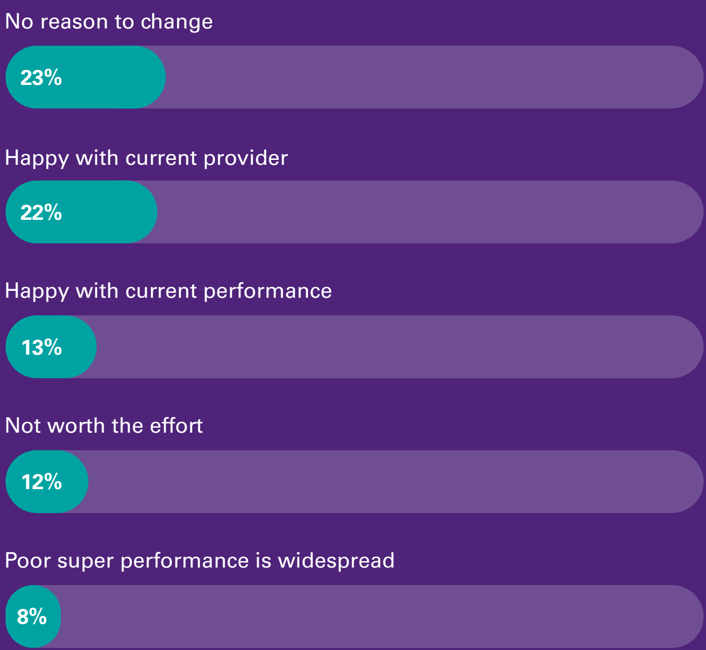
Consumers are not looking to switch providers despite low satisfaction

Superannuation and pension satisfaction was low compared to insurance and financial advice, with the lowest number of highly satisfied customers (20 per cent). Expectations of superannuation funds were typically lowest across many of the survey questions, particularly when focused on product and service personalisation, customer service, value for money, and flexible interactions.

How likely are you switch super funds in the next 12 months as a direct result of the impact of COVID-19?

Despite impacts on savings and retirement balances, and recognition of high fees in some funds, only 12 per cent of those surveyed expressed an intent to switch funds in the next 12 months due to COVID-19. Reasons to stay are largely to do with a familiarity, not seeing any reason for change or appealing alternatives. Some consumers feel locked into their current providers either through favourable employer terms or simply the knowledge of their current setup and existing relationship. The effort involved in switching funds has been called out by 12 per cent as the core limiting factor. Consumers are not recognising and comparing available options nor are they easily identifying how funds differentiate in their service and offerings. The challenge for funds is to overcome the apathy many people have due to the long term nature of this income stream.

Key reasons to stay in current super fund

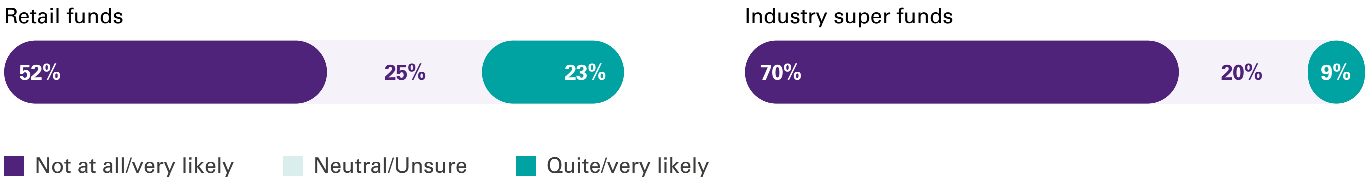


Retail fund outflows continuing

Customers of retail funds are more likely to make the switch out compared with industry super funds or other funds.

Interestingly the satisfaction with these funds was comparable at ~60 per cent despite a large number indicating they are likely to switch out of retail. The reason may be attributed to consumers seeking a better value alternative with lower fees.

% Current customers likelihood to switch super providers in next 12 months as a result of COVID-19



Consumers want better value

More than half of consumers whose jobs was impacted by COVID-19 have reassessed their financial position and their superannuation products. Their likelihood to switch funds has been higher at ~25 per cent vs an average of 12 per cent. Those seeking to switch are searching for better value alternatives.

"Lower fees temporarily while people may not be working"

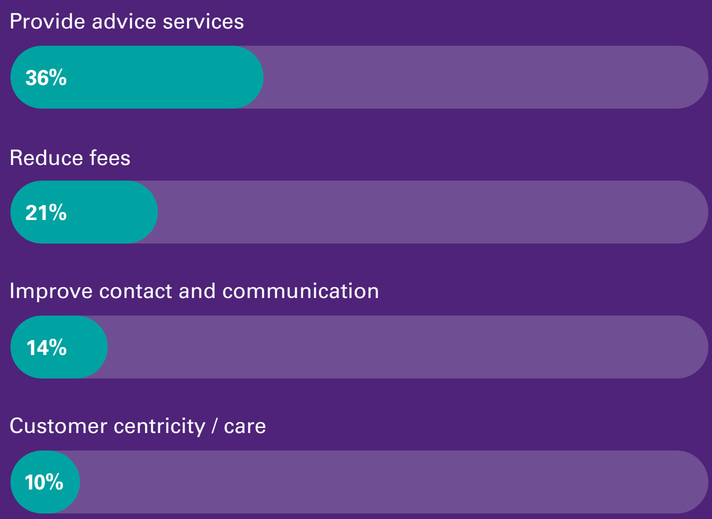
"Freeze fees for the duration of Covid"

Consumers seeking more advice

The onset of the crisis has caught many members 'off-guard' with widespread losses particularly for those invested in growth assets. Half of the respondents claim to now be more aware of their investment balance and are realising the importance of receiving advice to manage how their savings are being invested.

Consumers expect their funds to support them by providing advice and guidance through periods of uncertainty and market volatility. This was listed by 36 per cent of superannuation account holders. The mandate for super and pension funds is to increase engagement with members through targeted advice and education based services.

Expectations of super fund / pension providers through COVID period



Improve advice:

"Clearly explaining the financial disadvantages of accessing superannuation early"

Improve customer care:

"Give them reassurance that their super is safe and in good hands"

More information / updates:

"Updates and genuine advice to customers on the situation"

Advice and communications:

"Giving more frequent advice and being proactive in doing it"

59%

% of those who agree that it is more important for Super Fund(s) to provide them with financial advice

Impacts to retirement and financial goals changing dynamic for risk products

The heightened awareness of superannuation balances and losses will change consumer attitudes towards risk. Nearly two out of five agreed that they need to review their investments to better manage risk and support their future savings. This is especially the case for those within 10 years of retirement. Combined with positive demand for advice, this can set the platform for renewed interest in income-certain solutions, such as annuity style products, to underpin superannuation portfolios.

The scale of impact on the retirement plans of many Australians has been huge. More than half of those who have experienced job losses and salary reductions have had their retirement or savings goals impacted by COVID-19. Many indicated the need to work longer and postpone retirement – 40 per cent say they now have lower future savings or financial security. This is the time for super funds to engage members, particularly pre-retirees, on their retirement plans and provide advice and solutions as a member retention and loyalty development strategy.

Postpone retirement:

"I'm no longer on track to retire at same time or with the same level of super"

Fund type:

"Severe financial impact as result of the portfolio the mix"

Lower future savings:

"Loss of income has led to sacrifice focus on paying essential bills"

Value of super reduced:

"My current super balance has of savings and dived significantly over the last two months"

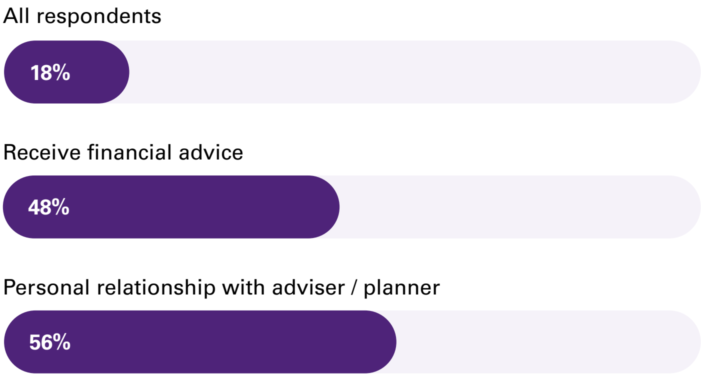
Value for money financial advice

Personal engagement with a financial adviser drives value, but only for the few consumers who are able to access it.

The post-COVID-19 consumer is far more selective with products they consider essential. This is largely influenced by the individual circumstances of the consumer, including whether they were impacted financially and whether they were already receiving financial advice. Only 18 per cent of consumers saw financial advice as essential, in stark contrast to 48 per cent for those who currently get financial advice.

The industry is also facing a value perception challenge. Consumers that are advised through a personal relationship with an adviser are more likely to see value, with 56 per cent agreeing that it is essential. Direct relationships with advisers contribute to the perceived value of the advice. Satisfaction of advised clients is above 70 per cent – higher than satisfaction with superannuation funds and most insurance product lines. Advised clients are more likely to view other financial products as essential and spend more widely.

% Who consider financial advice as essential

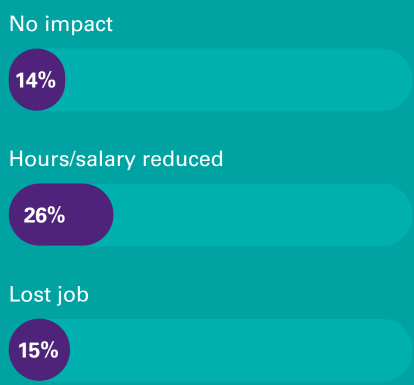


This offers an opportunity for advice providers to broaden the appeal of their services to target the non-advised consumers. Price is often a barrier, so providers need work with regulators to develop new models that balance compliance with an accessible price point. For providers who continue to operate vertically integrated models, there is increased appeal from free-of-conflict, cross-sell opportunities across other wealth and insurance lines.

Demand is up but consumers are not prepared to pay for it

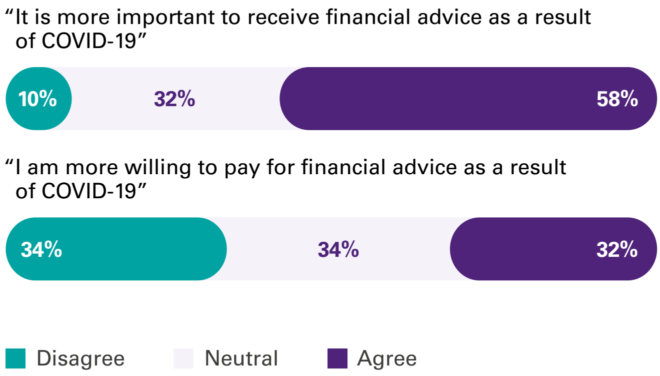
Consumers directly impacted by COVID-19 are more likely to see financial advice as essential than those who were not impacted. However those who have lost their jobs, do not see the increased need for advice. This is consistent with emerging consumer personas. Those in 'preserving mode' are limiting their expenditure but are still willing to continue to spend on services such as financial advice. Those in 'survival mode' without employment are prioritising basics, and will likely to see financial advice as non-essential. Providers will need to become more accessible to these customers and demonstrate value at lower prices, particularly as the economic impacts of COVID-19 continue.

% Who consider financial advice as essential



Essentially, 58 per cent agree that it is more important to receive financial advice due to COVID-19 but only 32 per cent are willing to pay for it. Advice needs to be made affordable and accessible to the mass consumer – and a digital-first offering is the clear path forward.

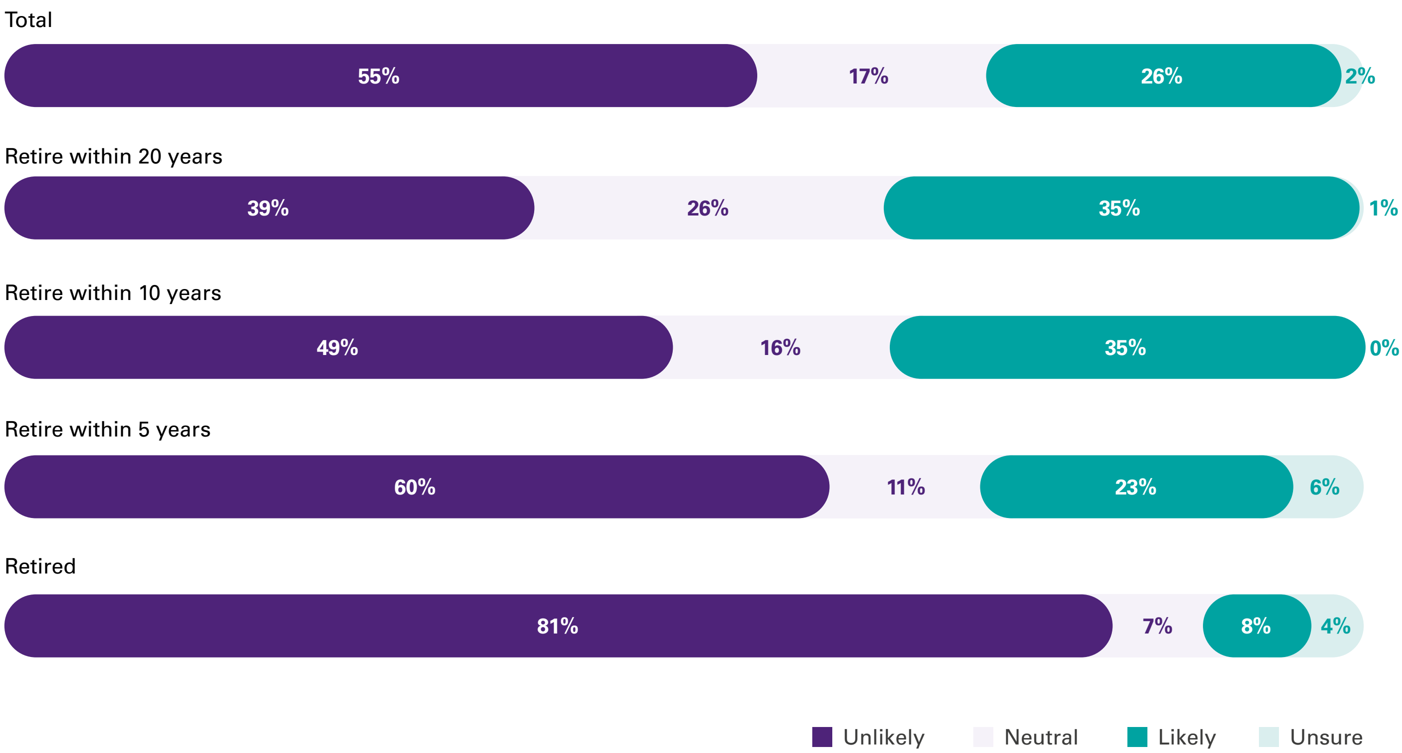
However when considering what is valued, it is the personal engagement. This comes back to one of the key objectives in digitising – create rich digital experiences that consumers can relate to akin to human contact. For this, many organisations will need a digital capability uplift.



With consumers more empowered, providers will need to be more flexible and demonstrate greater value.

More consumers are satisfied with their financial advisor/planner (71 per cent) than with their superannuation/pension fund (59 per cent). However those further away from retirement (10-20 years) were most likely to switch providers in the next year. Mostly because of service quality and belief that their provider did not respond to their needs during the crisis. With consumer expectations of service quality and digital accessibility increasing, businesses are at real risk of losing their customers if they don't adapt.

Likelihood to switch provider of financial advice as a result of COVID-19 in the next 12 months



Value for money financial advice (cont.)

It will be more important than ever for providers to demonstrate value and better customer service as well as offering flexibility in their advice offering. This sentiment is the same across superannuation, insurance and financial advice. Given financial stability is a key priority for consumers during the COVID-19 period, customer expectations and behaviour has dramatically shifted – customers are wanting far more trust, transparency, loyalty and security from their financial providers.

With some relief measures offered during COVID-19, it has become even more important for providers to serve consumers' single-need or scoped advice issues. While the regulatory frameworks haven't yet been created for this, it's certain that developing the processes and capabilities for offering such advice will be a 'no regret' for firms wanting a sustainable future. Providers need to offer a more customer-centric approach to advice delivery. To do this a deep customer segmentation will need to be done to understand the changing consumer needs and expectations – particularly in recovery post COVID-19.

In terms of expectations of financial advisers through COVID-19, customers were seeking quality advice and recommendations and customer service. The top response categories and example feedback were:

1

Quality of advice recommendation and info

"More explanation of how the current crisis affects investments"

"Be aware of how the current financial environment can be used for the best for their clients"

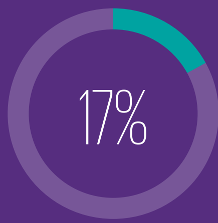
2

Customer-first service

"Working with clients more closely and providing reassurance"

"Offer to support applications for financial relief for products purchased through them"

3



Better communications

"Lack of communication and advice in this time of need"

"Provide more up to date info of what is happening and how it affects us"

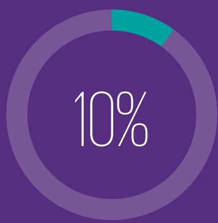
4

Reduce fees

"They should be making their services available at a more reasonable price"

"Being flexible with options and receptive to people with financial problems with fees"

5



Flexible service offerings

"Provide corresponding solutions according to the situation"

"I hope to delay payment of these services or pay a minimum amount"

Concluding thoughts

A call to action for insurance and wealth organisations

COVID-19 has accelerated the need to bring forward innovation and re-shape the industry. The new reality of the post-COVID crisis conscious consumer, will drive a renewed focus on digital first and value based propositions.

For insurance and wealth organisations, in the near term, this means:

- Stay close to consumer needs and develop a clear understanding of target segments and how they are evolving. Build on these to drive customer-centric innovation for future offerings.
- Purposeful, digital-first design to broaden your organisations appeal across more digital tools and perception of benefits and value, and support continued growth of this channel.
- Offering omni-channel services to support consumers – however they wish to engage.
- Seek the ability to tailor and personalise interactions as part of future digital strategies, especially to cater for younger consumers who understand the benefits that digitisation can provide.
- Continue to offer human and hybrid servicing models particularly for more complex situations or where additional support is required.

A new approach is needed for insurance, superannuation and financial advice firms in this new reality.

Insurance

- Develop attractive value-add offerings for the spend conscious post-COVID-19 consumers in a way that's mindful of the changing legal environment.
- Target temporary financial relief and premium suspensions and discounts to lessen the impact of policy lapses.
- Market the value add for certain product categories with high incidence of lapses and need to retain customers.
- Consider the concept of Open Insurance (like Open Banking) as a way to accelerate initiatives surrounding new prevention services, utilising data and new technologies.
- Achieve propositional balance to re-engage younger consumers by building flexible solutions and digital services.
- Seek to transform claims with an end-to-end process perspective, including the digitisation of First Notice of Loss (FNOL).

Superannuation

- Engage with members through targeted advice and education-based services.
- Engage with pre-retirees to understand their retirement impacts and support them through any revised planning.
- Develop and articulate a differentiated and diversified proposition to support future member retention.
- Look at product diversification requirements and ensure coverage to address a potential increase in demand for income certain products.

Financial Advice

- Focus on marketing the value of financial advice to customers who presently don't receive advice but show an increased need.
- Lead the narrative and agenda with regulators to develop a lower cost and more accessible advice offering to broaden the market for these services.
- Seek to develop digital capabilities to support a lower cost digital advice offer.
- Build on the human element and personal engagement which resonated well to demonstrate both value, and increased customer care and flexibility.

Tim Thomas
Partner, Insurance and Wealth, KPMG Strategy

"Our research has highlighted the critical window of opportunity that organisations have to make a break-out advance in their customer transformations. We have seen many organisations starting to make tracks on their journey to being customer centric, but in light of COVID-19, consumers are calling out for this now more than ever. Along with a brand promise that speaks to community and collective outcomes and support for customers in a time of need, our findings show that now is the time for insurers and wealth organisations to really make a step-change in their innovation agendas and truly consider their customer needs in their future propositions. This means revisiting how you are prioritising across the organisation, giving digital the focus it deserves and leading the narrative with regulators to drive support for transformation. It means really delving into what your brand stands for and seeking to enrich customer experiences across what KPMG calls the Six Pillars of Customer Experience Excellence – Personalisation, Time & Effort, Resolution, Integrity, Expectations, and Empathy."

Linda Elkins
Partner, National Sector Leader, Asset & Wealth Management

"Super funds need to increase engagement with their members – the survey shows it is less frequent than in other financial services areas. Nearly two-thirds expect to be able to deal with their super provider wholly digitally and this is an area which many funds are addressing, but they need to focus on operational improvements even more to meet expectations. A majority said financial advice from their provider was important, but only a third were willing to pay for it, so this leaves funds in a difficult position at a time when there are liquidity challenges, falling investment returns and early access withdrawals. These pressures, combined with heavier regulatory demands, will increase the likelihood of more fund mergers to achieve greater scale."

David Kells
Partner, National Sector Leader, Insurance

"Our survey shows how much insurers are in the spotlight in the COVID-19 era and need to meet higher consumer expectations across the board – in pricing, services, flexibility and claims experience. Customers are understandably more price-conscious than ever and are looking around for better deals or considering cancelling areas which they now consider discretionary rather than essential. So retention will be key for insurers.

But the survey also shows some positive news for insurers – many insurance lines are still seen as a necessity and those who have been directly impacted still see the value of life, health and income protection cover. Claims experience is also seen as good and almost 60% now expect to do that wholly online. So while insurers are under more consumer pressure than ever, there is a solid base to build on."

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Stakeholder Centricity

Stakeholder Centricity

Our world is more connected than ever, so now stakeholders aren't just customers and investors.

Everyone is part of the bigger picture.

We can help guide your organisation to Stakeholder Centricity and growth that's better for all.

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