

Reducing the risks

Improving access to home contents and vehicle insurance for low-income Australians

Insurance is a vital tool for protecting assets and also serves to prevent financial hardship by providing a safety net in the event of a loss. Unfortunately, those who are least able to replace their possessions or absorb a loss are the least likely to be insured. This research focusing on home contents and vehicle insurance for low-income Australians examined international innovations as well as domestic supply-side and demand-side barriers to having appropriate insurance cover. The findings point to a need for improved product design and payment methods for those on a low income, together with access to information and advice, and collaboration between the community sector, insurers and government.

Key points

- Levels of non-insurance among low-income Australians are well above the national average. In this study, 79 per cent of Progress Loans clients and 32 per cent of low-income Australians more broadly did not have home contents insurance; 39 per cent of Progress Loans clients and 9 per cent of low-income Australians had no insurance. It is alarming that 26 per cent of Progress Loans clients reported owning a car but holding no vehicle insurance.
- Nevertheless, Australians on a low income are aware of the role insurance plays in protecting assets, and many hold at least one insurance product.
- Overwhelmingly, affordability was reported as the greatest barrier to holding insurance at all or holding more adequate cover. Similarly, affordability was reported as the main reason for becoming uninsured. Many respondents expressed a desire to hold more insurance cover, but explained that they would then be unable to afford other essentials.
- Low-income Australians' choices of insurance products reflect their personal priorities. Some people regard asset protection as less important than other types of insurance such as funeral insurance.
- Many home contents policies are inappropriate for low-income consumers as they offer far higher minimum sums insured (typically \$25,000) than these people require. Paying for a level of cover above what is required increases the premium unnecessarily.
- Although there are some renters' policies available, these are often 'stripped-back' home contents policies with reduced cover and do not meet the specific needs of renters, such as alternative accommodation or claims against their bond for accidental damage.
- Payment issues, including timing and method, are another barrier to adequate insurance cover. Allowing regular payments under \$10 and especially fortnightly payments, without increasing the annual total, would make insurance premiums easier to manage within tight finances.
- Study participants showed considerable interest in being able to use Centrepay, Centrelink's direct-debit facility, to pay insurance premiums. The possibility of paying for home contents insurance together with rent also had widespread support.
- Large numbers of low-income drivers do not have third party property insurance, leaving them at severe risk of financial shock and loss of their vehicle in the event of an accident.
- There is large scope for the community sector, insurers, government, housing providers and consumer groups to collaborate in developing and providing appropriate insurance products for the low-income market, supported by accessible information and advice.
- Regulations relating to the marketing of insurance products for this group were found to be less restrictive than sometimes interpreted.

Background

An estimated 23 per cent of Australians do not have any home contents insurance, with this figure rising sharply for singles, younger adults, renters and those with a low income. A 2001 study found that 5 per cent of Australian drivers did not insure their vehicle.

Australia is behind other countries in increasing access to contents insurance for low-income consumers.

Insurance with rent schemes in Canada and the United Kingdom for social and community housing tenants have enabled many people to access insurance and protect their possessions against loss.

In recent years, there have been some community sector and consumer group moves to support targeted products for underinsured groups and pursue improved access; however, most recommendations to date have not been acted upon by government or the industry.

The research

This study grew out of the Brotherhood of St Laurence concern to reduce the financial vulnerability and protect the assets of low-income Australians, such as those involved in its programs.

The research had three main objectives:

- Identify the barriers to accessing insurance (demand side), such as attitudes and expectations in relation to insurance products, take-up rate and reasons for cancelling insurance.
- Identify the barriers to offering insurance for people with low incomes (supply side), including the insurance industry's perceptions of limitations and suggested measures to overcome them.
- Provide policy and product design recommendations for contents and vehicle insurance targeting low-income Australians.

The participants

The research participants consisted of four main groups, recruited in a variety of ways:

- Insurance industry representatives and supply-side stakeholders participated in interviews, meetings and personal communication.
- Participants for the seven focus groups were recruited from the Brotherhood of St Laurence's Progress Loans program, Fitzroy and Carlton Community Credit Co-operative clients, and apprentices associated with Incolink.

- A sample of 100 Progress Loans clients were recruited for a phone survey.
- A sample of 100 low-income Australians receiving income support, drawn at random from the general population, also participated in the phone survey.

Type and level of insurance

Survey responses showed that many low-income Australians do not have insurance, even on items purchased with credit.

Table 1 Types of insurance held

	Progress Loans sample (%)	Low-income population sample (%)
Home contents	21	68
Home building	5	57
Third party vehicle	20	44
Comprehensive vehicle	22	66
Private health	7	38
Life	15	30
Other	14	12
None of the above	39	9

Table 2 Insurance cover for items purchased with Progress Loans

	(%)
Yes	33
No	60
Not applicable: not an insurable item	4
Not sure/don't know	3
Total	100

Attitude to insurance

The study suggests that low-income Australians recognise that insurance plays a role in asset protection. Most participants held at least one insurance product, and many said they would like to hold more: 80 per cent of the Progress Loans sample and 42 per cent of the low-income population sample reported a desire to hold more insurance. Furthermore, low-income Australians sometimes chose products for reasons other than immediate security in the event of 'something going wrong'. The decision to hold life or funeral insurance instead of vehicle or contents insurance is an example: some research participants reasoned that they could eventually recover from a loss, and would prefer to ensure they were providing some security for family after their death.

Affordability as a barrier

Affordability is the main barrier to holding adequate insurance and the main cause of becoming uninsured. After meeting their rent and other obligations, many respondents cannot afford insurance. Many expressed a desire to hold more insurance cover, but explained that

they would be unable to afford other essentials if they did so; this resulted in the high incidence of uninsured vehicles among low-income groups.

Payment methods

Payment issues, including timing and method, are a large barrier to insurance cover. For a group who tend to manage their income fortnightly in line with income support payments, the availability of fortnightly premium payments would help them to manage their payments. Access to Centrepay, Centrelink’s direct-debit facility, which is already commonly used for essential services such as utilities, would reduce the pressure placed on household budgets by larger, less frequent payments.

There was widespread interest from survey respondents in streamlined payment methods for insurance premiums, with 42 per cent of the Progress Loans sample and 33 per cent of the low-income population sample reporting some or high interest in using Centrepay for insurance. Paying insurance with rent had similar levels of support. Focus group participants also responded positively to both options.

Vehicle insurance

A number of issues relating to vehicle insurance emerged. In addition to those respondents who had no vehicle insurance, another group could not afford comprehensive cover and so remained exposed to risk of serious loss. Consumer advocates also highlighted difficulties in claiming the uninsured motorist extension, a little-known feature of third party property policies that provides some protection in the event of an accident with an uninsured driver.

Table 3 Vehicle ownership and insurance held

	Progress Loans sample (%)	Low-income population sample (%)
Own at least one vehicle	65	87
Do not own vehicle	35	13
Third party insurance	20	44
Comprehensive insurance	22	66
Reported owning a vehicle but not holding any insurance	26	5

Note: Respondents could nominate more than one type of vehicle insurance.

Inappropriate products

Many insurance products are inappropriate for low-income consumers. Nearly all standard contents insurance products offer far higher levels of cover than

most low-income Australians require. Furthermore, some targeted products are poorly designed and not satisfactory for their target market—for example, renters’ policies that do not cover the specific needs of tenants. Vehicle insurance is a particular concern in that the less expensive policies leave those who can least afford an accident at risk of being unable to cover their own vehicle.

Study participants felt that product disclosure statements and other information were too complex and they found the fine print daunting. This may have contributed to some suspicion of the insurance industry and incomplete understanding of policy provisions (e.g. excesses, cover for tools carried in a vehicle).

Impact of financial services regulations

Concerns that financial services regulations presented a barrier to bodies wishing to develop and market targeted and grouped insurance products for low-income Australians were found to be overstated.

The availability of Class Order relief and ASIC’s openness to the development of dedicated products mean there is scope to develop products for low-income groups and investigate creative distribution channels, such as through housing providers.

Scope for collaboration

There is considerable scope for many stakeholders, including the community sector, insurers, government, housing providers and consumer groups, to collaborate in developing and providing appropriate and targeted insurance products for the low-income market. The community sector has a role to play in helping people access clear information about suitable products and convenient payment arrangements to meet their needs.

Recommendations—policy

- That the insurance industry should accept fortnightly premium payments without increasing the annual total and make payment via Centrepay available. If insurers do not begin offering fortnightly premium payments via Centrepay, the Commonwealth Government should make the offering of Centrepay by insurers mandatory, and ensure that payments under \$10 per fortnight are accepted.
- That community finance workers should be made aware that they can give a large amount of information without straying into the restricted territory of financial advice. Community services organisations should consider applying to ASIC

for regulatory relief if their staff need to provide financial product advice to their clients.

- That the Australian Government and insurers should make a greater effort to raise awareness of the dangers of being uninsured and increase understanding of insurance among the general population, through community service-style advertising, as used for preventative health and alcohol awareness campaigns.
- That the government's proposed key fact sheets should be made mandatory for all types of insurance policies.
- That the government and insurers must ensure the general public is aware of their right to access dispute resolution services, especially the Financial Ombudsman's Service.

Recommendations—product design

- That community organisations, governments, housing providers and community finance providers collaborate to develop and deliver affordable and appropriate contents and vehicle insurance policies for low-income Australians. These stakeholders should become familiar with relevant ASIC Class Orders and Regulatory Guides.
- That organisations interested in developing group insurance products should engage with ASIC in order to take advantage of available relief from regulation and ensure compliance.
- That insurers, housing providers, community organisations and governments work to develop insurance with rent products for social and community housing tenants.
- That the insurance industry should develop renters' insurance products that focus on the needs of tenants, rather than offering 'stripped-back' or 'no frills' home contents insurance. These products should include:
 - cover for theft, fire, storm and flood, with optional accidental breakage cover
 - alternative accommodation if the dwelling becomes uninhabitable or unsafe
 - cover for all potential claims on the tenant's bond, such as for broken windows or serious damage to the dwelling
 - public liability cover
 - explicit statements of any variations that depend on the type of dwelling, e.g. free-standing house or strata title.

- That insurers should develop basic vehicle insurance products that include:
 - third party property cover
 - an indemnity value (perhaps \$5000) for fire, theft and damage to ensure the insured is not stuck without a vehicle
 - an uninsured motorist extension that is more widely publicised.
- That opportunities should be developed to publicise affordable insurance accessible through community finance providers, especially in conjunction with credit products (e.g. Progress Loans).

About the project

This research project was funded from a grant received by the Brotherhood of St Laurence from the Department of Families, Housing, Community Services and Indigenous Affairs to further develop the Progress Loans program developed by the Brotherhood of St Laurence and ANZ, which provides loans of up to \$3000 for household goods and \$5000 for vehicle purchases for people on low incomes.

For further information

The full report, *Reducing the risks: improving access to home contents and vehicle insurance for low-income Australians*, by Dominic Collins (PDF file, 443 KB) may be downloaded from the Brotherhood of St Laurence website.

For other relevant Brotherhood publications, see <www.bsl.org.au/publications.aspx>.

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