Reducing the risks

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

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Brotherhood of St Laurence
Working for an Australia free of poverty

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Summary

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; and 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 the Progress Loans clients reported owning a car but holding no vehicle insurance.
- Nevertheless, low-income Australians 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 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 Britain 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 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 by survey respondents

	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

Note: respondents could nominate more than one type of insurance.

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 risk 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 choose 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 cannot afford insurance. Many respondents expressed a desire to hold more insurance cover, but explained that they would then be unable to afford other essentials; 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 vehicle insurance

	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

In light of the research and analysis presented in this report, it is recommended:

That alternative forms of payment for premiums be investigated and developed

- Insurance policies designed for low-income earners should allow payment of premiums by fortnightly instalments without increasing the annual total and through Centrepay, the system operated by Centrelink for easy payment of bills for those in receipt of government benefits. If relevant policies do not allow for fortnightly premium payments via Centrepay, the Commonwealth Government should make this mandatory.
- The Commonwealth Government and insurers should ensure that payments via Centrepay under the current $10 per fortnight minimum are accepted for insurance premiums, to maximise access to insurance products and allow premiums to be paid in manageable instalments.

That Commonwealth and state governments, insurers, housing providers and community sector organisations collaborate to develop appropriate and affordable home contents and vehicle insurance products for low-income Australians

- A working group comprising insurers, housing providers, community organisations, the Department of Human Services and the Department of Families, Housing, Community Services and Indigenous Affairs should be established to develop appropriate and affordable insurance with rent products for social and community housing tenants. These stakeholders should become familiar with relevant regulations and particularly the framework for regulatory relief.
- The Australian Securities and Investments Commission should provide clear guidance about the regulatory relief available to support group insurance schemes such as insurance with rent and work with providers to ensure compliance.
- Renters' insurance products must be developed with a focus on the needs of tenants rather than offering 'stripped-back' or 'no frills' home building and contents policies. These products should include:
  - cover for theft, fire, storm, flood, with optional accidental breakage cover
  - alternative accommodation if the dwelling becomes uninhabitable or unsafe
  - cover for all 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.
- Insurers should develop basic vehicle insurance products that include:
  - third party property cover
  - an indemnity value of perhaps $5000 for fire, theft and damage
  - an uninsured motorist extension that is simple to claim and widely promoted.
- Insurers should structure policies designed for low-income earners with a 'deductible' rather than an 'excess', so it is clear that the portion not covered by the insurer does not have to be paid prior to a claim proceeding; rather, the claim payment will be reduced by the deductible amount.

That plain-English information about policy holders' rights be made freely available

- All policy information should be clear, succinct and in plain English, and easily understood by people with limited financial literacy.
- The Australian Government's proposed key fact sheets should also be made mandatory for all types of insurance policies.
- The Commonwealth Government and insurers must ensure the general public is aware of their right to access internal and external dispute resolution services, especially the Financial Ombudsman's Service, and insurers must structure their disputes resolution process so that customers are not dissuaded from lodging a claim or complaint, and that claims and disputes are resolved in a reasonable time.

That opportunities to distribute insurance and information through community finance providers be developed by governments, insurers and the community sector

- Community finance providers should begin to develop and distribute appropriate and affordable insurance products, especially in conjunction with credit products (e.g. Progress Loans).
- The Australian Securities and Investments Commission should provide explicit guidance about the information that community finance workers can impart to consumers about appropriate and affordable insurance options, before straying into the territory of advice. ASIC should also consider offering regulatory relief if the regulatory framework is impeding appropriate information being imparted in a way that benefits consumers.

That resources be devoted to increasing awareness of the dangers of being uninsured

- Insurers, state and Commonwealth governments and housing providers must make a concerted effort to raise awareness of the dangers of being uninsured. This could be done through:
    - government advertising campaigns (possibly similar to those used for public health)
    - improved advertising for vehicle and contents insurance, focusing on risks and affordability of cover
    - information flyers available from social housing and community finance providers.

That legislative and regulatory reforms be implemented, to enhance protection for consumers

- The *Insurance Contracts Act 1984* should be reviewed so that a consumer who pays a premium in instalments cannot have their contract cancelled or a claim denied where non-payment of an instalment is due to financial difficulty or through no fault of their own.
- The Future of Financial Advice reforms (FOFA) should include regulatory exemptions for consumer finance workers so that they can provide advice about appropriate general insurance products for low-income consumers without needing to seek regulatory relief individually.

That further research be conducted relating to insurance for low-income Australians

- The reported problems associated with funeral insurance need to be explored. Extended research into international best practice for providing affordable, appropriate insurance as part of wider financial inclusion strategies should be considered. Further enquiry should also address those whose policies lapse and why they do not renew their insurance.

1 Introduction

In the aftermath of multiple natural disasters in Australia in recent years, insurance has featured in public policy debates. While bushfires in Canberra (2003) and Victoria (2009) exposed some of the deficiencies of the Australian insurance system, the floods in Queensland and Victoria in 2010 and 2011 refocused attention on insurance and renewed the opportunity for policy action and product development. The difficulties many individuals faced after the floods in claiming under their home and contents insurance have brought into question the adequacy of mechanisms for financial risk reduction, particularly through insurance products.

Insurance provides a valuable safety net against loss. While the financial and emotional shock generated by a sudden loss of assets is devastating for all those affected, this is more acute for those on low incomes. These people usually have limited opportunity to build savings or other liquid assets to access in an emergency and use to replace their possessions. They are often unable to afford insurance, less able to access affordable credit, and unable to take advantage of discounts for paying cash (Vawser and Associates 2009). It is paradoxical that those most at risk of not being able to recover from a loss of assets are the least able to afford the protection that insurance provides.

Low-income people also face more expensive methods of payment, such as monthly instalments, or rely on credit as they often cannot pay in full. Unsteady incomes make access to mainstream finance difficult, and many people are pushed to rely on high-cost finance, or to simply go without essential goods or services (Arashiro 2011a; Vawser and Associates 2009).

Despite being the least able to recover from financial shocks, low-income groups are often ‘forgotten’ by the insurance market. While 23 per cent of all Australian households do not have home contents insurance (Mortimer, Bergin & Carter 2011), this percentage increases considerably for those on low incomes, singles, people under 30 years of age, renters and recent migrants or refugees (Connolly et al. 2011; Tooth & Barker). The incidence of having an uninsured vehicle is also higher for low-income groups (Connolly et al. 2011; NRMA Insurance 2001).

Recent initiatives such as the Natural Disaster Insurance Review and the ‘Fair Go in Insurance’ campaign by community, consumer advocacy and legal aid organisations, and the new willingness of some insurance industry stakeholders to discuss reform options have created incentives for all sectors to devise insurance alternatives that increase insurance accessibility and reduce exposure to financial risk.

Background

For the Brotherhood of St Laurence, reducing the high financial risk to which uninsured individuals are exposed is a central part of ensuring a financially and socially inclusive society. Drawing on both parties’ earlier work in financial literacy and affordable credit, ANZ and the Brotherhood of St Laurence developed Progress Loans in 2006 to promote access to safe, fair and affordable credit for those on low-incomes. Progress Loans offers small personal loans of $500 to $3000 for purchasing household and essential goods such as whitegoods and furniture, and up to $5000 for a vehicle. The loans are designed to be affordable rather than low-interest, with an interest rate comparable to most personal loans.

The target market is people who are managing their limited money well and can afford a loan, but are excluded from mainstream finance. Eligible borrowers have a Health Care or Pensioner Concession Card, have stable housing and are able to make regular repayments.

Evaluations indicate that Progress Loans effectively reach low-income groups, providing safe access to financial resources that they would be unlikely to access in the mainstream financial system (Vawser and Associates 2009; Vawser and Associates, forthcoming).

However, feedback from Progress Loans staff and clients has also indicated that many borrowers do not insure their purchases, which include both home contents and vehicles. While their material possessions might not be of great capital value, they are often essential items which they would find extremely hard to replace in the case of a sudden loss.

More broadly, the Brotherhood's experience with assisting financially disadvantaged Australians has indicated that while the elimination of formal barriers to mainstream financial services is necessary, more needs to be done to ensure financial stability for low-income Australians, giving them some capacity to absorb financial shocks.

Burkett and Sheehan (2009) defined financial exclusion as 'a process whereby a person, group or organisation lacks or is denied access to affordable, appropriate and fair financial products and services'. Such exclusion matters not only because it affects the capacity of financially excluded people to participate in the economy, but also because it limits their degree of social inclusion. Since both economic and social participation are priorities of the Australian Government (DPMC 2009), it is clear that a social policy agenda has to address the problem of financial exclusion.

It is within this broad framework, in which issues of fairness and equity are debated, that this report is placed. It aims to contribute to the policy debates on insurance and financial inclusion by specifically addressing the needs and desires of low-income Australians.

2 Research design

The research's main objectives are to:

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

Primary data collection for this research combined quantitative and qualitative approaches, collected through four channels:

- a telephone survey conducted by Vawser and Associates, with a sample of 100 current and former Progress Loans clients, and a broadly comparable sample of 100 low-income Australians from the general population.
- structured interviews with insurance industry employees recruited with the assistance of the advisory committee
- informal consultation with Australian and foreign insurance experts, social housing associations, government departments and advocacy groups.
- focus group consultations with low-income participants, defined as those currently dependent on Centrelink payments as their main source of income (see Table 2.1). Apart from the apprentices, who were all males aged 18 to 35, there was a spread of ages in the focus groups, ranging from young adults to retirees with a nearly even split of males and females.

Table 2.1 Focus groups

Description	Numbers
Progress Loans clients	3 focus groups conducted in Fitzroy, Craigieburn and Frankston, with a total of 11 participants
Clients of the Fitzroy and Carlton Community Credit Cooperative	2 focus groups, with a total of 9 participants
Apprentices	2 focus groups held in Melbourne, with a total of 15 participants

Progress Loans clients were recruited with the assistance of the loans officers, who selected individuals in their respective locations.

In the case of the Fitzroy and Carlton Community Credit Cooperative, with the permission of the organisation, recruitment posters were displayed on the teller shield. Respondents attended focus groups at the Brotherhood of St Laurence's office in Fitzroy.

Apprentices were recruited with the assistance of Incolink, an organisation that supports building and construction workers who become unemployed. The first group consisted of eight first-year plumbing apprentices, and the second of seven cabinet-makers at different stages of their apprenticeship. Both focus groups were held at the apprentices' educational institutions.

Advisory committee

This project benefited from the input of an advisory committee, with representation from consumer advocacy bodies, the community sector and the insurance industry. These organisations were the Australian Securities and Investments Commission (ASIC), Community Action Law Centre, Footscray Community Legal Centre, Financial and Consumer Rights Council, Brotherhood of St Laurence, ANZ Investments and Insurance, and the Insurance Council of Australia.

Ethics

This project received ethics approval from the Brotherhood of St Laurence Research Ethics Committee. All research participants gave written consent to participate and were made aware of their right to withdraw at any stage. Following Brotherhood of St Laurence policy, all focus group participants received a $40 contribution for their time and input.

Limitations

This research concentrates on low-income Australians. Although we used receipt of Centrelink payment as the criterion for low-income, we recognise that this definition does not capture the diversity of low-income earners. It could, for instance, be enlarged to include the ‘working poor’, those who despite being in full-time paid work, may earn much less than the average weekly earnings in Australia for full-time employees, which was $992.50 in November 2010 (ABS 2011).

The small survey sample does not allow for generalisation from the quantitative data, which should be interpreted in conjunction with the qualitative data gathered from the focus groups. Also, the two survey sample groups do not reflect the wider Australian population, but rather approximate the Progress Loans clients’ profile in terms of gender and age.

3 Research background

Research about insurance and low-income Australians has been limited, but some domestic studies have outlined barriers and provided snapshots of insurance held by certain income groups. Internationally, there have been more extensive studies, and more product development, especially of home contents insurance in the United Kingdom and Canada. These initiatives, and some lessons that can be drawn from micro-insurance in developing countries, are assessed below.

Australian research

There has been limited research into the insurance needs of low-income households in Australia. In terms of public information, there is no regularly reported public data on the levels of non-insurance, particularly vehicle insurance. That said, there is recognition of insurance as a vital asset-protection tool and method for limiting financial vulnerability, and that it may be inaccessible to many low-income Australians (ASIC 2005; Connolly et al. 2011; FaHCSIA 2011; Saunders 2007, 2011).

In a 2001 NRMA-commissioned phone survey, the reasons given by interviewees for not having home building or contents insurance included:

- renting rather than owning the building (23 per cent)
- cost (22 per cent)
- the belief that one's possessions are not worth insuring (19 per cent)
- 'not having got around to it' (19 per cent).

The same report also showed that, in terms of vehicle insurance:

- 5 per cent of drivers reported having only compulsory third party[1] cover ('green slip' in New South Wales, TAC contribution in Victoria)
- 80 per cent had comprehensive insurance
- 14 per cent had third party property damage insurance.

Cost, together with vehicle value, was a major reason given by interviewees for not having home contents insurance or having only third party vehicle insurance. This was correlated with income, with many of the uninsured reporting household income below $50,000 (NRMA Insurance 2001).

The Brotherhood of St Laurence's *Risk and reality* report (Sheehan & Renouf 2006) is the only Australian study that has focused on insurance for low-income Australians. The report identified several barriers low-income people experienced in regard to insurance, including:

- unaffordability of premiums and excesses
- negative past experiences with claims
- individuals' attitudes toward risk
- difficulty estimating the actual value of their assets and, consequently, the potential financial impact of losses
- self-exclusion, often due to perceptions about insurers' security requirements
- misunderstanding and feeling overwhelmed by contract terms.

[1] Compulsory third party insurance covers injury to other persons (not to property).

Sheehan and Renouf's recommendations included:

- development of 'no frills' products
- development of partnerships between insurers, housing providers and community groups
- better communication of the risks associated with being uninsured
- better information on how to purchase insurance
- more flexible payment options
- greater collaboration between government, the corporate sector and community groups
- provision of policy information easily understood by people with limited financial literacy.

Since then, there have been some small steps towards increasing insurance coverage for low-income Australians, including heightened industry interest, increased government concern, and the establishment of brokers such as Community Housing Insurance Australia, specialising in insuring housing providers. However, many of Sheehan and Renouf's recommendations continue to be emphasised by consumer advocates and yet not be implemented.

Insurance and taxes

Taxes on insurance[2] have been a point of contention for the insurance industry, with the Insurance Council of Australia arguing that they are a major contributor to non-insurance and underinsurance (ICA 2011; Tooth & Barker 2007). Mortimer, Bergen and Carter (2011) have suggested that these taxes are regressive, as they make insurance less accessible for the most vulnerable; Treasury has recommended that states abolish stamp duties on insurance (Treasury 2010); and the Henry Tax Review (2010) criticised current insurance taxation arrangements as inefficient (Recommendation 55) and called for the abolition of insurance-specific taxes (Recommendation 79).

The Victorian Government accepted Recommendation 64 from the Victorian Bushfire Royal Commission (Teague, McLeod & Pascoe 2010) to replace the Fire Services Levy with a progressive, property-based funding system, and will phase it in from 1 June 2012 (Ryan & Wells 2011). This decision has required funding for fire services to be sourced elsewhere, and a levy on property to be introduced, shifting the responsibility for collecting this revenue from insurers to local councils. This may be a double-win for low-income earners, as they will be eligible for concessions on any property based-levy, and theoretically have access to cheaper insurance. Nevertheless, it is by no means certain that removal of insurance taxes will result in increased uptake of insurance: indeed, Tooth and Barker (2007) report that the removal of insurance taxes in Western Australia coincided with only a marginal decrease in rates of non-insurance.

Following the extensive flooding this year in eastern Australia, the Insurance Council of Australia (2011) has proposed a 10-point plan to tackle disasters; and campaigns such as A Fair Go in Insurance (AFCCRA 2011) are raising awareness and pushing for insurance reform. The Commonwealth Government's independent Natural Disaster Insurance Review (Treasury 2011c) provides momentum for improving insurance for low-income Australians. Its terms of reference include consideration of the extent of, and reasons for, non-insurance and underinsurance for flood and natural disasters in Australia. The review coincides with other reforms currently being pursued by the Government, including:

- further consideration on the application of unfair contract term laws to insurance contracts

[2] Taxes include the Commonwealth goods and services tax, state stamp duty and fire services levies.

- mandating a standard definition of flood for use in insurance policies
- mandating a short ‘key facts’ statement that summaries the contents of insurance policies
- mandating a time limit for an insurer to provide a final decision in relation to a claim
- adding home and contents and motor vehicle insurance premiums to the expenses that can be paid using Centrepay, Centrelink’s direct-debit facility (Treasury 2011b).

Renters’ insurance

In the Australian market, contents insurance products for renters are offered by a number of insurers. These policies tend to be based on an existing standard home building and contents policy but with reduced cover (generally a minimum of $5000), and are aimed primarily at young renters and university students. The reduced cover allows them to be offered at a lower premium than standard products while still ensuring a safety net for renters, even if only their essential possessions are covered.

Renters’ policies have been criticised by consumer advocates for being essentially ‘stripped back’ home and contents policies, rather than being developed in response to market or community need. Most policies do not cover alternative accommodation if the dwelling becomes uninhabitable or the landlord claims against rental bonds for accidental damage to the property and chattels. One policy covers alternative accommodation costs but has a number of conditions, including that the tenant be a resident in a strata title property (RACV 2011), and the insurer will only cover costs above the rent, which means that tenants would be unlikely to be able to access short-term housing such as a motel. There are also concerns over the replacement of fixtures after disasters.

StepUP Insurance

There is one insurance product that has been crafted specifically for low-income customers. StepUP Insurance complements the StepUP Loans offered by the National Australia Bank (NAB) and Good Shepherd Youth and Family Services. StepUP provides small, low-interest, unsecured loans to Centrelink Health Care Card or Pension Card holders, most of whom would be unable to access mainstream finance from a bank.

StepUP Insurance was developed by NAB in partnership with Allianz. Designed for StepUP Loan participants, it is a ‘stripped back’ product based on standard Allianz insurance products. Premiums were lowered by reducing the level of cover and removing intermediary operational costs. The standard excess was also halved.

StepUP clients were advised of the product by microfinance workers, and could purchase the insurance through a dedicated contact centre with staff trained in serving this niche market. Although policy holders cannot not pay their premiums using Centrelink’s Centrepay facility, they can use fortnightly direct debits, which assist with budgeting.

StepUP Insurance was developed without the cost of constructing and testing a completely new product. The challenges encountered in promoting the product have included the following (NAB representative 2010, personal communication):

- Some clients assume that insurance ‘isn’t for them’, and many are happy to remain uninsured.
- NAB considered it must adhere to specific legislation requirements that govern the provision of selling insurance. Microfinance workers were allowed to suggest that clients consider insurance, but not to provide clients with any specific financial advice. They could only provide a phone

number for the client to call to further investigate insurance. This may have had the unintended effect of making insurance seem unimportant.

- As many StepUP borrowers live in designated ‘risky’ areas, risk-based insurance pricing meant that premiums were often still higher than their budget allowed.
- The thought of another sizeable bill after having just taken out a loan may have deterred some potential clients from purchasing insurance.

Despite these difficulties, StepUP Insurance provides a niche product for a group of people who may be uninsured. As it is linked to StepUP Loans, there is an opportunity to present insurance to the borrower at the time they are acquiring assets which need to be protected.

Community Housing Insurance Australia

Community Housing Insurance Australia (CHIA) was established in 2010 to be ‘an insurance broking business dedicated to providing tailored and competitive insurance solutions for Australia’s community and affordable housing providers’ (see <www.chinsurance.com.au>). CHIA is a social enterprise set up by Power Housing Australia, a Victorian-based industry body representing some of the nation’s largest social housing providers. As a broker, CHIA can leverage the buying power of multiple housing providers. The benefits of this include reduced building insurance premiums for the housing provider.

Consultation with the insurance industry and social housing providers indicate an awareness and willingness to address non-insurance and underinsurance among low-income tenants in social and community housing. Although CHIA does not broker insurance for tenants’ contents, it supports further developments in this market.

Vehicle insurance

There is limited public data about levels of vehicle insurance in Australia, or about the uptake of different types of vehicle insurance, but data from 2001 suggests that 5 per cent of private vehicles are uninsured (NRMA Insurance 2001).

Compulsory third party insurance provides essential cover against claims for compensation for injury or death caused by vehicle accidents. In Victoria, it is paid as part of vehicle registration, so there is a high level of uptake.

Other forms of insurance cover risks to one’s own property and legal liability, and are offered by insurers in the competitive market:

- **Third party property insurance** (commonly referred to as ‘third party’) generally covers the damage an insured person causes to another vehicle and may include limited cover for damage caused to the insured’s car by an uninsured driver (called ‘uninsured motorist extension’ (UME).
- **Third party property, fire and theft insurance** also covers events when a vehicle is stolen or burnt.
- **Comprehensive vehicle insurance** is the highest cover option, but also the most expensive. It generally covers the cost of crash repairs or vehicle replacement, even where the insured is at fault.

In general, third party insurance is cheaper as it covers fewer risks. As a result, those who are least likely to be able to afford repairs or replacement, such as young people or those on limited incomes, are the ones most likely to be underinsured.

There has been an increasing push from the industry towards online insurance sales to reduce overhead costs. This has led to the development of online-only insurance products. Bingle, for instance, offers a single comprehensive vehicle insurance product for which enquiries, purchase, and claims are all processed online. These features have helped to reduce costs and minimise the premium. From a consumer's perspective, however, they require a high level of trust and familiarity with online transactions and contracts. Among low-income Australians, the use of internet for price comparison and purchase, especially of a complex product like insurance, is still not widespread. In fact, for many in this group, the removal of the opportunity for face-to-face communication is likely to become an additional barrier, widening the gap in access to appropriate information (Arashiro 2011b).

International initiatives

There are successful initiatives overseas that are helping to increase insurance cover for low-income households. Throughout Britain, particularly in Scotland, there are examples of housing providers are offering 'insurance with rent' schemes, and in Ontario, Canada, a provincial government mandate, the Social Housing Reform Act 2000, requires insurance to be available to social housing tenants. In both countries, the establishment of these schemes has received support from various levels of government.

Insurance with rent schemes vary in their structure, but the basic premise is that the housing provider collects the premium with the rent payment from their tenants, keeping the rent payment and forwarding the premium to the insurer. The nature of the cover varies, but the principle is that the tenants' essential possessions are protected. Additionally, housing providers' buildings could also be insured under the same contract. The benefits of being able to leverage bulk coverage, including cover for buildings, are considerable.

United Kingdom

In the United Kingdom, an extensive study of home contents insurance for low-income households in the late 1990s focused on why people were uninsured, to what degree people weighed up the risks of being uninsured, whether non-insurance mattered, and insurance options for low-income households (Whyley, McCormick & Kempson 1998). The report indicated that 20 per cent of British households had no home contents insurance, and highlighted that:

- those who did not hold contents insurance tended to be young, single, renting privately or in local authority housing, often in households headed by someone who was unemployed, and only just managing to make ends meet or experiencing financial difficulties.
- of households without home contents insurance, roughly half had held a policy in the past but had let it lapse or be cancelled due to financial difficulties. Similarly, roughly half of all uninsured households stated they would like to be insured but were deterred by cost.
- respondents were aware of the risks of being uninsured and thought insurance was important.
- respondents perceived certain risks as higher than others. While they saw burglary as a risk, many paid far less attention to fire, flood and accidental damage. This was attributed in part to the relative control individuals have over security, compared with events such as fires and floods.

Insurance with rent schemes in the United Kingdom have been encouraged by many local councils, central government and insurers. Despite the challenges involved with marketing and informing tenants about these schemes, there appears to be a developing market among low-income earners, with housing providers also working to ensure tenants have the opportunity to insure their possessions (Demos 2005; Hood, Stein & McCann 2005; Whyley, McCormick & Kempson 1998).

Data from 2010 from the UK Treasury focusing on social and community landlords (E Kempson 2011, personal communication) revealed that:

- at least 971 social landlords offered an insurance with rent scheme, covering 3.8 million households (69 per cent) in local authority or community housing
- as many as 1501 landlords do not offer a scheme, meaning 1.7 million households (31 per cent) do not have access. Of these, 1286 have housing stock of less than 1,000 units.

Hood, Stein and McCann's (2009) study of insurance with rent schemes in Scotland included schemes offered by local authorities and social/community housing associations. With regard to local authorities, it identified that 24 out of 32 offered some form of insurance with rent option. The minimum sum insured was usually £9000, with a lower sum for pensioners. Two authorities offered basic cover (fire, theft, vandalism and water damage only), while fifteen authorities offered cover similar to the standard cover in Australia, and seven provided extra cover (legal and accident) for an additional premium. The uptake rate varied considerably, from 4 to 23 per cent depending on the local authority. The explanations for low uptake included limited marketing, inertia among tenants, and some insuring outside the scheme. The researchers suggested that although local authorities considered the insurance beneficial and part of their remit, for the scheme to become more effective, it would be necessary to improve the marketing strategy, preferably with greater support of the central government.

Social housing providers have also invested in insurance with rent schemes, either offering their own product or, in the case of the majority of members of the Scottish Federation of Housing Associations, marketing the Diamond Insurance scheme, developed by insurers RSA.

Minimum cover under the Diamond Insurance scheme is £9000, but drops to £6000 for pensioners over 60 years of age (Hood, Stein & McCann 2009; RSA 2009). The cover offered is similar to the cover offered by local authorities. Information about the product is available in a plain-English prospectus, and the application form is easier to understand than forms for mainstream insurance products. In 2011, £15,000 of cover cost, at most, £96.71 per year. This predetermined pricing system allows tenants to know precisely what their insurance will cost before they apply. Importantly, there is no excess on claims. The housing provider indicates that and the number of claims remains 'quite within the norm' (SFHA representative 2011, personal communication).

Insurance uptake rates among some social housing associations are modest, and in many areas remain below 10 per cent. Associations that have invested in their own scheme put more emphasis on marketing and recruitment, and this may explain why their uptake rates tend to be higher than for those operating the Scottish Federation of Housing Associations Diamond Insurance scheme (Hood, Stein & McCann 2009).

While further simplifications, such as an opt-out rather than an opt-in feature, could help to increase coverage (Johnson & Goldstein 2003; McAuley 2008), there is almost no support for this from Scottish housing associations (Hood, Stein & McCann 2009).

The Scottish experience suggests that providers of insurance with rent need to:

- consider the best time to sign up new tenants
- define a specific strategy to reach existing tenants

- invest in staff training and retention
- pursue face-to-face interaction to engage uninsured tenants, rather than relying on traditional promotional mechanisms such as posters and mail-outs.

In Northern Ireland, social housing and Housing Executive tenants have access to targeted contents insurance products, again developed by RSA, which are very similar to those available in Scotland but slightly more expensive, with £15,000 of cover costing £103.50 per annum in 2011 (RSA 2011). Supporting Communities Northern Ireland, a community development organisation, has application forms for insurance cover on its website <www.supportingcommunitiesni.org>, with easy links to home contents insurance information. Similarly, the website of the Northern Ireland Housing Executive prompts consideration of insurance with the line ‘By thinking “It won’t happen to me”, you could cause a crisis you needn’t have suffered. Get your possessions insured!’, and mentions insurance ‘from as little as £2 a fortnight’ (NIHE 2011). The Housing Executive website redirects potential clients to the Supporting Communities Northern Ireland website or to their local Housing Executive office for information and application forms.

Canada

The Canadian experience with tenants’ insurance is markedly different from that of the United Kingdom. Due to the extra provincial layer of government, the regulations and obligations of insurers and the insured are not nationally uniform, similar to Australia. In 1997, the Government of Ontario began devolving all housing administered by the province to the municipal level. The *Social Housing Reform Act 2000* created the Social Housing Services Corporation (SHSC), charged with delivering programs and services for housing providers province-wide, including group insurance (SHSC 2011).

To deliver group insurance for tenants, SHSC started SoHo Insurance as a wholly owned subsidiary. In 2007, SoHo Insurance became a sub-broker for SHSC, launching its low-cost policy for tenants of social housing in early 2008. The program, developed in conjunction with Chartis Insurance, now covers more than 170,000 housing units from 680 housing providers, protecting tenants’ assets and housing stock worth C$22 billion (SoHo Insurance 2011; SoHo Insurance representative 2011, personal communication).

SoHo insurance offers two options for tenants. The first option provides C$10,000 cover, C$2000 additional expenses if the residence becomes uninhabitable due to a covered claim, C$500,000 liability cover and has a C$300 deductible.[3] This option costs C$155.52 per year, or C$93.31 for six months. The second option doubles the cover for all three categories but maintains the same deductible. It costs C$207.36 for one year, or C$124.42 for six months.

The application forms for SoHo products, available from the SoHo website and housing providers, are presented in plain English and are easy to follow. The policy disclosure statement is also written in plain English.

[3] A deductible is similar to an excess in that it places a portion of the cost of a claim on the insured; however, instead of needing to be paid in advance, it is deducted from the settlement. This is discussed in chapter 5.

Micro-insurance in developing countries

Micro-insurance products have predominantly been developed and tested in the developing world. Some lessons from these more mature products may be applicable to the Australian context.

The Women's World Banking (2006), for instance, recommends simple, standard insurance products, which are easy to understand for staff and clients, and which avoid overloading people with too many alternatives. It also suggests that legislation should be designed to enable strategic alliances between insurers and intermediaries. Other studies indicate that a marketing strategy should be designed specifically for micro-insurance consumers, taking into consideration the following:

- Products should be standardised as much as possible and avoid overloading consumers with choice.
- The promotion of the product should make the need for insurance salient to potential consumers.
- Insurers should help raise individuals' awareness of overconfidence about risk.
- As much as possible, excesses should be eliminated from policies.
- Insurance should be framed as an opportunity not to be missed, rather than an option.
- Products should be designed simply so people with limited literacy can understand them (Churchill 2007; Cohen & Sebstad 2005; Dalal & Morduch 2010; McCord, Botero & McCord 2005).

Summary

Research into insurance relating to the needs, desires and access of low-income Australians has been limited, but when the findings are compared with international research they form a coherent picture of the barriers facing this group. These barriers include affordability, lack of simple information, self-exclusion, and a lack of affordable and appropriate products. Many insurance products are not appropriate for much of the low-income population. Contents policies with a minimum sum insured of $25,000 or more provide much greater cover than many low-income Australians require. Standard vehicle insurance policies also create difficulties for low-income clients with the high cost of comprehensive cover, and difficulties in claiming under the little-known but beneficial uninsured motorist extension are of particular concern (see Chapter 4).

There has been a recent swell in interest in increasing access to insurance for low-income Australians, and international initiatives provide alternatives on how to address this issue. Throughout the United Kingdom and in Ontario, insurance with rent schemes are widely available for social and community housing tenants. With due consideration of the domestic conditions, it appears this model could be replicated in Australia and provide access to affordable and appropriate contents insurance for low-income Australians.

4 Perspectives from the supply side

> It [insurance for low-income Australians] is vitally important ... Underinsurance, or lack of insurance for want of a better description, is a massive problem in Australia. It is a massive, massive issue, and there are a lot of reasons why people don’t take out insurance. (Insurance industry employee)

Many factors contribute to underinsurance and non-insurance for low-income Australians. These can be divided into supply-side and demand-side barriers (Mortimer, Bergin & Carter 2011). Although they are presented in two separate sections of this report, it should be emphasised that many of these factors are cumulative or interdependent. Piecemeal responses which address only a few barriers are unlikely to result in any substantial change in access to or uptake of appropriate and affordable insurance by low-income Australians.

This section draws on structured interviews, consultation meetings and personal communications with insurance industry stakeholders in Australia. In this report, the supply side refers not only to insurers, but also to intermediaries such as banks, brokers and other partners, and to potential sources of communication and information about insurance, such as community finance workers.

There was a sense from some insurers that the low-income market is not a desirable focus for insurers, and that product development for this segment was not justifiable from a commercial point of view. Some within the industry have taken the view that if the low-income market was profitable, it would be targeted by insurers.

Market structure

The costs associated with insuring low-income consumers were stressed by the industry as a challenge. For instance, fixed costs of staff and processing of forms and claims cannot be proportionally reduced by simply halving the cover. One insurer estimated that due to the costs of development, marketing and administration, even a standard policy may need to be held for up to three years without a claim for a company to break even.

At the same time, the commissions system for the remuneration of brokers incentivises sales to wealthier consumers, as opposed to lower-income earners, and may lead to the promotion of more comprehensive (and expensive) products. The cost to intermediaries such as banks must also be considered when providing targeted products.

Actuarial barriers

The accurate actuarial analysis on which insurance premiums are based depends on the completeness of information available, the selection of risk factors and the loading attributed to each factor, among other considerations. One example of how this risk assessment can lead to exclusion of low-income earners is the pricing based on place of residence.

When asked about postcode-based pricing, one insurer explained that insurers keep records of statistical data on claims and crime rates for each suburb, town and city around Australia, and adjust premiums accordingly. Although acknowledging that different prices for opposite sides of the same road were difficult to explain, he added that postcodes are still the easiest way to assess place-based risk. As low-income families often live in areas judged to be of higher risk, they face higher premiums for their insurance.

Another barrier to disadvantaged groups is the industry's perception that the time and resources required to promote full understanding of insurance among low-income earners is not financially justifiable. Many of the industry stakeholders who were consulted for this project confirmed that the cheapest sales method for insurers is currently the internet, and noted that the more staff and intermediaries in the sales chain, the higher premiums need to be.

Risk aversion

The practice of 'redlining'4 is seldom reported in Australia, except in disaster situations, such as flooding and bushfires, when insurers can legally refuse to issue new policies in designated postcodes until the disaster has passed. Perhaps more concerning is the fact that some policies do not cover such risks at all, as became widely apparent across eastern Australia during the recent floods. Anecdotal evidence exists of consumers being refused or unable to get appropriate insurance cover, particularly for strata-title premises (Brotherhood of St Laurence et al. 2011); however, detailed data is difficult to find.

Regulation

While regulation of financial services is necessary to protect consumers, some legal requirements are perceived as a barrier to the provision of insurance to the low-income market. The *Corporations Act 2001*, for instance, requires anyone providing personal financial product advice to hold an Australian financial services licence, be adequately trained, comply with certain requirements about the basis for the advice and, generally, provide a statement of advice to their clients, although there is an exemption for some deposit products and insurance products.

There is some concern that this restricts what community finance workers can communicate to a client, limiting the potential for community education about insurance products, terms and conditions. A specific concern identified in the promotion of the StepUP insurance product was that even when clients become interested in insurance, they often lack the motivation or resources to pursue further information if they can only be referred to a call centre (community finance stakeholder 2011, personal communication). Research in Scotland and in Australia indicates that clients tend to prefer face-to-face communication from trusted sources (Arashiro 2011b; Hood, Stein & McCann 2009). The lack of trusted, impartial communication channels is a clear barrier to those seeking information, advice and assistance.

In a submission to the Corporate and Financial Services Regulation Review, the Insurance Council of Australia (2006) commented that regulation requires those providing advice on general insurance 'to be trained on matters well beyond the actual products being dealt with'. According to the council, this had unintended consequences:

- General insurers have moved to adopt a 'no advice' policy on insurance products, which disadvantages consumers.
- Business inefficiencies and resulting cost pressures have been created in areas where staff turnover may be high, such as call centre environments, due to the need to ensure a minimum level of training is undertaken before a person can answer customer enquiries.

Additionally, the council outlined a concern that providing a financial services guide and other documentation such as a Product Disclosure Statement can discourage consumers and may overload them with information. Information overload is explored in Chapter 5.

[4] Redlining is the deliberate exclusion of areas from being able to obtain insurance cover, usually because the risk is considered too high, or is imminent, as in the case of bushfires. Redlining is usually based on postcode.

Financial services regulation does not, however, prohibit the delivery of information and education about insurance and the related risks. The Australian Government's financial literacy website, MoneySmart, provides information about insurance including its benefits (ASIC 2011a). Regulated financial advice generally involves recommendations on purchasing a specific product (for example, an insurance policy), as the Australian Securities and Investments Commission (ASIC), the financial services regulator, outlines:

> If a communication does not involve a recommendation or a statement of opinion, or a report of either of those things, it is not financial product advice. Communications that consist only of factual information (i.e. objectively ascertainable information whose truth or accuracy cannot be reasonably questioned) will generally not involve the expression of opinion or recommendation and will not, therefore, constitute financial product advice (ASIC 2011b).

Thus, a significant amount of useful information about the value and risks relating to insurance may be provided by someone who is not licensed, including a community worker.

Financial counsellors have also been offered specific regulatory relief by ASIC, provided a number of conditions are satisfied, including:

- no fees or charges being payable by or on behalf of the client
- no remuneration (by way of commission or otherwise) being payable to, or on behalf of, the financial counselling agency
- the financial counsellor being a member, or eligible to be a member, of a peak financial counselling association
- the financial counsellor having undertaken appropriate training to ensure that they have adequate skills and knowledge (ASIC 2003).

There may be benefits in extending this Class Order to other community finance workers, such as those who provide specialised insurance products for people on low incomes, where those products are linked with no-interest or low-interest loans.[5]

Regulatory relief is also available for group purchasing bodies, as the regulator recognises that these are most likely to be acting in the interests of persons to be covered by the product, rather than in their own interests, and that compliance would be disproportionately burdensome.

The relief applies to bodies that either hold an insurance product that would cover other people (under a group policy) or arrange for another person to acquire an insurance product (e.g. by negotiating a master policy that sets out agreed terms of cover that can then be applied for by individuals, or by arranging applications for individual policies) (ASIC 2008). It is possible that this relief may apply to social housing providers in various situations, for example, where:

- social housing providers acquire a group contents policy and give tenants the opportunity to be covered under that policy
- social housing providers negotiate a master policy that sets out terms and conditions that the insurer will offer to tenants of that provider
- the tenants apply for standard contents cover with relevant insurers, and the social housing provider acts as conduit for payment of premium instalments (by agreement with the insurer).

[5] The exemption for providers of community-bank partnership finance initiatives in the National Consumer Credit Protection Regulations 2010 is relevant (Regulation 20).

Assuming the conditions contained in the Class Order are met, the social housing provider would not be required to be licensed. This is explained further in Regulatory Guide 195 (ASIC 2010b).

It is also worth noting that insurers and intermediaries have the opportunity to engage directly with ASIC as they develop products targeted at excluded groups such as low-income households. Where the product benefits vulnerable and excluded consumers, and there are mechanisms to reduce the risks associated with predatory or inappropriate sales, ASIC may be able to grant relief from licensing requirements.[6]

Finally, the Australian Government is also pursuing financial advice reforms, through the Future of Financial Advice initiative (Treasury 2011a). One area of reform is to ‘expand the availability of low-cost “simple advice” to improve access to and affordability of financial advice’ (Bowen 2010). Should there be identified regulatory barriers to insurance for low-income Australians, this could be addressed through this reform process (through, for example, further exemptions for community finance workers).

Despite this, some regulatory barriers may be more perceived than real; and there is great scope to improve access to affordable insurance products within the current regulatory framework.

Delivery and working with intermediaries

From the perspective of intermediaries, such as banks, brokers, housing providers, and potentially community organisations, there are also barriers to providing insurance for low-income Australians. These include administration constraints, financial costs, and staff training and retention issues. Offering targeted and well-designed products for low-income clients poses difficulties if the specific product knowledge and understanding of the target market are not maintained, and this has been experienced in call centres with high staff turnover.

For social housing providers, there are incentives in having insured tenants, such as peace of mind and enhanced security, but there are also challenges in implementing an appropriate scheme. The administration, especially where the housing provider collects premiums on behalf of the insurer, may appeal to the insurer, but it transfers the problems of collecting money and pursuing default payments to the landlord. One insurer mentioned that non-payment of premiums has been an occasional issue in retirement villages; this is a sensitive situation owing to the limited income of many residents, and addressing late payments requires a sophisticated understanding of the policy holders’ financial situation. A provider must commit to advertise and manage a scheme and be aware that uptake may be slow.

There is, however, a potential niche market among public and social housing residents, which unlike in other parts of the world, has not been recognised in Australia. Industry representatives nominated the following issues as impediments to similar insurance with rent schemes in Australia:

- industry scepticism and unfamiliarity with providing insurance in this fashion, especially to a low-income tenant group
- uncertain uptake rates (and therefore unknown returns) inhibiting development and investment
- regulation of group insurance, and the approval required for innovations.

[6] Information about how to apply for relief is available in ASIC Regulatory Guide 51 (ASIC 2009).

Payment

Administrative costs and costs associated with recovering late payments or non-payments with monthly periodic payments were repeatedly mentioned as a reason dissuading insurers from pursuing fortnightly payments. On the other hand, one interviewee familiar with financial services to low-income groups mentioned that the risk of delays and default could be reduced with Centrepay, for those on Centrelink payments. In their experience, these groups tend to see Centrepay as service 'for them', and the automatic debit from their fortnight payment as easy to manage. In other industries such as energy and water, the provision of Centrepay and corporate understanding has improved payments and reduced debt collection costs (Cole 2009).

Excesses, deductibles and financial difficulty

Some respondents from both the industry and the consumer surveys expressed concerns about excesses, mainly about the nature of excesses and misconceptions about how they work. Many people had the impression that an excess must always be paid by the insured in order to lodge a claim or have a claim processed:

> If you have the excess and you've been paying all these premiums and you get nothing, what's the point?

For low-income Australians this money is often not readily available—especially for those who manage their income fortnightly and have very little left over after meeting their obligations and basic needs. In reality, excesses function differently from this. Many insurers will simply deduct the excess amount from any settlement: thus the policy holder still bears the initial cost of the claim, but is not required to outlay the excess. This stance has support in Australian common law.

With regard to the payment of excesses in times of financial difficulty, the New South Wales Court of Appeal recently determined that in times of financial difficulty, non payment by the policy holder cannot be used by the insurer as grounds for denying a claim (*Calliden Insurance Limited v Chisholm [2009]* NSWCA 398). As the Financial Ombudsman Service explains:

> The Court stated the insurer could not avoid its liability under the policy because of the insured's inability to pay the excess. The Court did not accept it was a requirement for an insured to pay the excess before the insurer becomes liable to indemnify the insured (FOS 2010).

The Financial Ombudsmen Service has taken the view that:

- an applicant's inability to pay the policy excess does not automatically allow an insurer to avoid liability for a claim which would otherwise fall within the policy terms
- an applicant's inability to pay the policy excess does not prevent the Financial Ombudsmen Service from considering a dispute.

This decision is relevant when handling claims in post-disaster situations, or when looking to develop products specifically for the low-income market.

Referring to a 'deductible' instead of an excess might make it easier for consumers to understand that paying this amount is not a condition for having a claim accepted. A deductible serves the same purpose as an excess; yet it is clear that no outlay is required on the part of the consumer, as the amount they must bear is simply deducted from the payout when the claim is settled. The financial result for the insurer and consumer is the same.

Vehicle insurance

There is a definite need for vehicle insurance to be more accessible, as evidence from community legal centres shows. Data from one community legal centre in the western suburbs of Melbourne indicates that more than 90 per cent of their motor vehicle accident cases involve uninsured drivers (D Nelthorpe 2011, personal communication).

The provision of vehicle insurance to the low-income market presents challenges similar to other lines of insurance, but apparently with less space for cost reduction. Some insurance industry stakeholders pointed to 'stripped back' vehicle policies already in the market, which offer third party cover with minimal extras, and are sold online. One respondent mentioned that unfortunately in this market the margins are so restricted that costs cannot be reduced further.

Due to the cost of premiums, low-income earners often acquire third party property insurance rather than comprehensive insurance. While third party cover can prevent people from being liable for damage to another vehicle for an at-fault incident, it does not provide protection for the insured's own vehicle should it be damaged or written off. A little-known component of third party policies is the uninsured motorist extension (UME), which offers some protection (usually $3000–$5000) for insured drivers who suffer damage caused by an uninsured driver.

Consumer advocates have been critical of UME, arguing that to claim, the insured must often produce a large amount of evidence. One case study (provided by a community legal centre) highlighted this, as this extract illustrates:

> Sam[*] was involved in an accident where he was not at fault. The police report on the incident, provided to the insurance company, stated that:
>
> - the other driver was on a learner's permit
> - the other driver had a blood alcohol reading of 0.14; and
> - the accident occurred as a result of the other driver being on the wrong side of the road after running a red light.
>
> Sam also provided a copy of his statement to the police to his insurer, in which Sam stated that the other driver had produced a knife with a 10 to 15 centimetre blade at the scene of the accident.
>
> This evidence suggested that the other driver was at fault and also that it might not be safe for Sam to continue to communicate with the other driver, yet the insurer wrote to Sam stating that Sam must provide a letter from the third party stating that the third party was at fault for the incident and that he had no insurance cover, before Sam's claim would be accepted.

Although consumer advocates have criticised the industry for making UME claims unreasonably difficult, one insurer interviewed for this study refuted this:

> Consumer advocates often argue that it is difficult to make a UME claim because of the requirements placed on the insured to obtain information about the other driver. However, this is largely unsubstantiated and incorrect. For example, [our] policy only seeks the name and rego of the other driver at fault. This is basic information that anyone would obtain if they were in an accident. Even if they couldn't get the name, they can get the rego (i.e. by reading the other car's licence plate) and the insurer could obtain the name of the registered owner if provided with the rego number.

[*] Not the person's real name.

Another insurer provided a different angle:

> We don't actively promote third party cover, as obviously we'd rather insure people for full comprehensive which brings us in a much higher premium.
>
> UME is mentioned in our policy wording, but how many clients read that? I'm sure a lot don't know about the benefit until it comes time for a claim.

Still, as acknowledged by one interviewee, more awareness of UME could make third party policies 'more attractive' to those who consider they cannot afford a comprehensive policy. In addition to the difficulties sometimes associated with claiming UME, there are concerns that people may be dissuaded from lodging a claim or encouraged to withdraw claims by their insurer.

The possibility of making third party property insurance compulsory for all vehicles was raised by one industry respondent as a means of ensuring a minimum level of protection for all motorists. According to one consumer advocate, this proposal had widespread support during the 1990s, but has since fallen out of favour. Many believe the extra costs might result in more people not registering their vehicles, thereby undermining the current compulsory third party arrangements rather than overcoming the problem of non-insurance.

Potential innovations

Regarding potential innovations to make home contents and vehicle insurance more accessible to low-income Australians, industry suggestions included:

- basic perils (fire and theft, or just theft) contents policies
- a return to offering indemnity[7] policies
- increased publicity of 'no frills' policies.

These responses indicate an awareness that there are ways to reduce the costs associated with insurance policies for the benefit of low-income Australians. However, as outlined, lower quality cover would mean that these customers would not have the same level of protection as the general population. These proposals also lack any indication of a resolve to begin targeted marketing and developing products with the specific needs of low-income people in mind.

One insurer raised the possibility of establishing a government-funded home contents insurance safety net for those receiving Centrelink payments. Such a scheme could operate in a similar way to Medicare or be put out to tender, and be accessible in times of disaster or extreme loss such as a house fire.

Summary

On the supply side, a range of obstacles inhibit the development of targeted insurance products for low-income Australians. International experience shows many of the barriers identified above can be addressed, particularly by insurance with rent schemes, which have been shown to be sustainable. Vehicle insurance appears to pose more of a challenge in terms of improving affordability, although more appropriate products should be pursued.

[7] Indemnity in the insurance industry means cover that will pay out up to a nominated level to replace loss at market value, rather than new for old replacement, which replaces lost items with new items, regardless of age or depreciation.

There has been some concern about the advice community finance workers can give to clients, but there is wide scope for information to be provided without straying into the territory of giving advice or specific product recommendations. Similarly, the regulatory relief available for group purchasing bodies, and ASIC's willingness to work with entities developing products and services to assist low-income Australians, should be utilised by governments, housing providers and the community sector in collaboration to remove the obstacles outlined above. A range of variables affecting the structure, operation, implementation and other aspects of insurance products for low-income Australians is presented in Appendix 1. Chapter 6 outlines possible product structures.

5 Perspectives from the demand side

> When I first come to Melbourne back in the early ’70s, [my children were only small]. In the flats we were living, they had a laundry at the top; and there was a guy who used to sleep in it and he set the mattress on fire. So the fire brigade came and we were in the next level down. They ushered us out in the middle of the night. We were standing in the street in our dressing gown and all I was thinking of, ‘Oh my God, I’ve just got my clothes there, I’ve just bought a lounge suite, I’ve just bought bed linen and everything. If I lose that, what’s going to happen to us?’ I think they were two and three at the time, my children. And I was devastated. It didn’t get to that, that the roof had fallen in or anything like that, but that was going through my head when I was sitting downstairs, you know? (Female pensioners, former Progress Loans client)

Analysis of survey data

The Brotherhood of St Laurence contracted Vawser and Associates to conduct a telephone-survey with 100 former Progress Loans clients, as well as 100 low-income individuals drawn from the general population.

The Progress Loans sample consisted of clients who had taken out a loan prior to 2008. For the low-income population sample, the only requirement was to be a recipient of Centrelink or Veterans’ Affairs payment or hold a Centrelink Health Care Card (eligibility criteria that apply for Progress Loans clients). While Progress Loans are currently offered in Melbourne and surrounding areas only, Vawser and Associates recruited nationally for the low-income population sample. Table 5.1 outlines the respondent profiles for both samples.

Table 5.1 Survey respondents’ profile

		Progress Loans sample (n=100)	Low-income population sample (n=100)
Gender	Female	75	65
	Male	25	35
Age (years)	18 to 24	1	8
	25 to 34	11	19
	35 to 44	17	17
	45 to 54	23	18
	55 to 64	33	16
	65 or over	14	22
	Declined to answer	1	-
Housing tenure	Private tenant	9	10
	Public housing tenant	81	5
	Mortgagee	2	29
	Home-owner	2	34
	Other	6	22
Vehicle owner	Yes	65	87
	No	35	13
State or territory	Victoria	100	31
	New South Wales	-	21
	Queensland	-	21
	Tasmania	-	15
	South Australia	-	7
	Western Australia	-	3
	Australian Capital Territory	-	2

For the low-income population sample, the main payments received were Parenting Payment and Family Tax Benefit (34 per cent), Age Pension (23 per cent) and Disability Support Pension (20 per cent). All other payment types totalled less than 10 per cent of respondents.[8]

There was one very important difference between the two samples that should be kept in mind when comparing the results: housing tenure. While 81 per cent of the Progress Loans respondents lived in public housing, only 2 per cent owned their home and 2 per cent had a mortgage. In the low-income population sample, only 5 per cent were living in public housing, while 63 per cent either were paying off or owned their home. Given that Progress Loans are often marketed to residents in public housing, this was not surprising. The relatively high percentage of respondents from the low-income population sample who had purchased their home indicates this group were relatively more financially secure than the Progress Loans respondents. This indicates that even among low-income Australians certain groups face higher levels of financial vulnerability.

Insurance held by low-income Australians

Table 5.2 shows 60 per cent of Progress Loans clients had not insured the items purchased with their loans. This high rate of non-insurance among people who have borrowed to purchase an essential item illustrates the Brotherhood of St Laurence's wider concerns around insurance. Given that low-income Australians tend to have very low savings to absorb a sudden financial stress, and in this case as borrowers also carry the obligation to repay their loan, loss of that item could trigger a sharp decline in their quality of life.

Table 5.2 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**

The high non-insurance rate seen above is also evident in Table 5.3, which shows Progress loans clients were less likely to hold insurance products of any type, compared with the low-income population sample.

Table 5.3 Types of insurance held by respondents

	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

Note: Respondents could list more than one type of insurance.

In fact, nearly 40 per cent of the Progress Loans sample had no insurance products at all, compared with only 9 per cent of the low-income population sample. Moreover, among the insured

[8] Details of income support for the Progress Loans sample were not readily available.

respondents, those in the Progress Loans sample tended to hold fewer insurance products on average (1.7 products) than those in the low-income population sample (2.13 products).

When compared with the Australian population where 77 per cent have contents insurance (Tooth & Barker 2007), both of the low-income groups surveyed in this research are less insured. Yet, as shown below, many of these people would like to have more insurance.

The only category of insurance in which Progress Loans respondents held more insurance than the low-income population sample was 'other'. Of the 14 responses for that category, 12 reported holding funeral insurance / funeral fund / 'death' insurance. In contrast, only four respondents in the low-income population sample reported holding funeral insurance, and 'other' types of insurance for this group included accident/trauma cover, as well as income and payment protection policies.

Funeral funds deserve future investigation. Consumer advocacy bodies have indicated concerns with the methods by which companies have been targeting lower income groups and exploiting their fear of being unable to afford a funeral, without promoting a clear understanding of the terms and conditions of the policies (Mihm 2011).

Vehicle ownership also varied between the two groups, with the low-income population sample reporting far higher levels of vehicle ownership. Further analysis showed great differences in the vehicle insurance held, with the Progress Loans sample having much less cover. Alarmingly, 26 per cent of the Progress Loans sample reported owning a vehicle but not having any insurance. It is not known how many of these vehicles are also unregistered.

Table 5.4 Vehicle ownership and vehicle insurance

	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.

The currently uninsured, the never insured and the lapsed

Some 21 per cent of the Progress Loans sample had *never* held any insurance. As Table 5.5 shows, more than half of those currently uninsured have never held any insurance. An assessment of those who were uninsured but had formerly held insurance showed vehicle insurance to be the main cover respondents ceased holding (Table 5.6).

Table 5.5 Previous insurance among currently uninsured

	Progress Loans sample (n=39)	Low-income population sample (n=9)
Yes (lapsed)	18	2
No (never held any insurance)	21	7
Total (currently uninsured)	**39**	**9**

Table 5.6 suggests that when people cease holding insurance they often stop holding home contents and/or vehicle insurance. This is a concern as it leaves them vulnerable to loss of possessions, but also

liable for damages should they be involved in a car accident. People may be acutely aware of the risks of being uninsured and the impact of even modest losses on their households; yet, because insurance is not essential for day-to-day survival (when compared to food, rent, power and clothing), it is among the easier expenses to cut.

Table 5.6 Types of insurance formerly held by those whose policies had lapsed

	Progress Loans sample (n=18)	Low-income population sample (n=2)
Home contents	3	1
Comprehensive vehicle	6	
Third party vehicle	5	
Private health	3	1
Life	1	
Total	**18**	**2**

Reasons for ceasing to hold insurance varied, but cost was the leading reason (see Table 5.7), selected for cessation by half of the 18 respondents from the Progress Loans sample and both respondents from the low-income population sample. It is worth noting that none of the respondents nominated ‘wasn’t good value for money’, despite the fact that the survey allowed multiple responses. This suggests the respondents were aware of the benefits provided by insurance and that their decisions to cease being insured were mainly driven by financial constraints.

Table 5.7 Reasons for ceasing to hold insurance

	Progress Loans sample (n=18)	Low-income population sample (n=2)
Too expensive / couldn’t afford it	9	2
No longer required / didn’t need it	1	
No longer have item/vehicle, or moved home	4	
Had a claim refused	1	
Bad insurance experience	1	
Wasn’t good value for money		
Missed payments (insurance company cancelled it)		
Other	3	

Note: Respondents could nominate more than one reason for cancelling insurance or letting it lapse.

This table highlights the issue of affordability in paying for and maintaining insurance. As low-income households spend primarily on daily needs, increased costs of living or additional financial obligations can have a dramatic effect on the affordability of other items. For many, the basic protection provided by contents and vehicle insurance is not affordable.

Attitudes towards insurance

With regard to attitudes towards present insurance cover, satisfaction was lower among the Progress Loans sample than among the low-income population sample (see Table 5.8).

Table 5.8 Satisfaction with present level of insurance cover

	Progress Loans sample (%)	Low-income population sample (%)
Satisfied	64	87
Not satisfied	31	9
Not sure / don't know	5	4

When asked whether or not they would like to have more insurance cover of any type if it was affordable, 80 per cent of the Progress Loans respondents and 56 per cent of the low-income population sample answered yes (see Table 5.9). This suggests that low-income Australians, even those who are relatively satisfied with their insurance, would ideally like to have greater cover.

Table 5.9 Desire for higher insurance cover

	Progress Loans sample (%)	Low-income population sample (%)
Yes	80	56
No	18	42
Not sure/don't know	2	2

Those who indicated desire for higher cover were then asked for what types of insurance they would like more cover. As Table 5.10 shows, home contents insurance was the type of insurance nominated by the most respondents, with 48 of the Progress Loans sample and 16 of the low-income population sample reported wanting more contents insurance. The fact that Progress Loans sample respondents were less protected by home contents insurance may explain why the desire for more home contents insurance was higher in this group than in the low-income population sample.

Table 5.10 Types of insurance wanted by respondents who would like more cover

	Progress Loans sample (n=80)	Low-income population sample (n=56)
Home contents	48	16
Home building	6	12
Comprehensive vehicle	21	9
Third party vehicle	5	5
Private health	21	24
Life	30	31
Other	6	10
Not sure / don't know	5	4

Note: Respondents could nominate several types of insurance

With regard to vehicle insurance, 21 of the Progress Loans respondents reported they would like to have comprehensive cover. Within that group, 12 were currently driving an uninsured vehicle. The proportion of the low-income population sample that desired comprehensive vehicle insurance was lower. Again, the low-income population sample started with a higher base rate of comprehensive vehicle insurance.

Barriers to having more insurance

Considering that the results above indicate an awareness of the benefits of insurance and the desire to have insurance, it was important to explore why lower income Australians do not hold higher levels of insurance. Table 5.11 relates to barriers preventing more insurance cover, no matter what level respondents held at the time of survey. Although respondents could nominate more than one response, very few did so.

Table 5.11 Barriers to having more insurance

	Progress Loans sample (%)	Low-income population sample (%)
Too expensive / can't afford it	**69**	**62**
Don't need it: have adequate cover now	4	15
Don't need it: don't want more cover	1	1
Don't need it: don't want any insurance	1	1
Don't trust insurance companies	1	1
Confusing policies / hard to understand	1	-
Can't find a suitable policy	1	1
Would be refused insurance cover	1	1
Have been refused cover in the past	-	-
Insurance is a waste of money	2	1
Never considered / thought about it	2	1
Other reasons	10	3
No reason	10	16

Note: Respondents were allowed to nominate more than one barrier.

These responses indicate that cost is the greatest barrier to increased insurance cover for low-income Australians face: 69 per cent of the Progress Loans sample and 62 per cent of the low-income population sample chose 'too expensive / can't afford it' as a barrier. Interestingly, although people may commonly express negative feelings about insurers, these attitudes do not appear to act as a major barrier to purchasing insurance or increasing insurance cover.

The results indicate that not being able to *afford* insurance is more of an issue than insurance being seen as unnecessary, a poor spending choice or a waste of money. This is congruent with the fact that low-income Australians make their spending decisions within a constrained budget and must decide what potential expenditure should receive priority, even when they would like to be able to allocate resources for other relevant items (Arashiro 2011a).

Only one person from each sample did not want any insurance, only one from each sample did not want more insurance, and only one from each sample viewed their current insurance level as adequate. This indicates a gap for low-income Australians between their desired insurance cover and their capacity to afford it.

Alternative payment options

The survey included two questions about attitudes to alternative and innovative methods of paying for contents insurance. These options were payment through Centrepay, Centrelink's direct-debit facility, and payment with rent. As Table 5.12 and Table 5.13 show, at least 30 per cent of both samples reported some or high interest in both alternative payment methods. This suggests these payment methods could be pursued as a means of improving insurance access. Differences between the samples reflect the differences in housing tenure and baseline insurance levels, with lower support for alternative payment methods reported by the low-income population sample, most of whom did not live in public housing.

Table 5.12 Attitudes to paying contents insurance premiums with Centrepay

	Progress Loans sample (%)	Low-income population sample (%)
High interest	30	12
Some interest	12	23
Low interest	16	4
No interest	31	50
Not sure	9	4
Not applicable: wouldn't take out any insurance	1	2
Not applicable: not on Centrelink payments	1	5
Total	**100**	**100**

Note: Some respondents were receiving a pension from Veterans' Affairs.

Table 5.13 Attitudes to paying contents insurance premiums with rent

	Progress Loans sample (%)	Low-income population sample (%)
High interest	30	11
Some interest	11	22
Low interest	11	7
No interest	34	55
Not sure	8	1
Not applicable: wouldn't take out contents insurance	6	4
Total	**100**	**100**

Note: Some respondents supported this option although they were not renters themselves.

Additional responses

At the end of the survey, participants were asked for any additional comments. A small number stated they had never experienced problems claiming and were satisfied with their insurers. Some interesting responses emerged, particularly relating to cost and attitudes towards insurers. While the survey data did not indicate widely held negative attitudes towards insurance, and a majority of respondents made no comment, many of the comments showed a high level of suspicion and distrust of insurers. One person thought that 'Insurance companies steal your money', a view formed after being unable to have a claim processed after their car was stolen. Another commented that 'All [insurance companies] want is a one-horse race', and that they are a 'rip-off'. A couple of respondents claimed that insurance 'is never as good as they say it is', and one respondent commented that they are 'owned by the banks', which seemed to be for this respondent a negative association. There were also complaints about cost (e.g. insurance is 'too expensive' and 'overpriced') and affordability ('If I could afford it I'd love to have it', and 'If I got insurance, I couldn't eat').

Insights from focus groups

> The reality is, insurance is going to skyrocket with all these natural disasters. There's a lot of money to be paid out, and they're going to look to recoup that from other avenues. So it's the little battler that's going to get hit the hardest, as always. And it's going to get more unrealistic, where people probably have got their house and contents insurance, they'll start looking at their policies, and if you notice, you start getting clauses like 'You're not covered for natural disasters and this and that'. And people are just going to start dropping off insurance all together, because the average retired pensioner won't be able to afford it anymore, and the coverage they probably used to have once as a luxury won't be there with these new renewals. (Male Progress Loans client)

While the survey data presented above provided a broad picture of perceived barriers and attitudes towards insurance, the qualitative data allowed a better understanding of the financial circumstances in which many low-income Australians make decisions about insurance and the reasons behind their attitude towards financial risk and protection. This section reports on the main themes discussed by focus group participants. The results from the two focus groups of young apprentices, focusing exclusively on car insurance, are covered separately at the end of this section.

The analysis of the data from the focus groups has been arranged into the following themes: affordability, understanding of insurance terms and conditions, information overload, attitudes towards insurance companies, asset valuation, inappropriate products, payment options, home contents insurance, vehicle insurance for apprentices and 'invisible' barriers.

Affordability

Supporting the survey findings, the most common reason focus group participants mentioned for not having insurance was cost. When asked *how* cost influenced their decision to acquire contents or vehicle insurance, the majority commented that while they would like to have insurance, within their current budget limitations insurance was simply unaffordable:

> I could probably [afford one policy] and I'd get by on doing [paying] it, but then I'd forfeit other things.

> It's not what's reasonable, it's what's affordable.

> The thing is if you get insurance for your car and insurance for your house and insurance for your death, how can you pay them on pension? I live off my pension. I've got no money in the bank. When I get the money of my pension that's all I've got, so how can you pay all these things as well as all your amenities and your rent?

> I would not be able to afford more than a couple of hundred bucks a year, maybe three. But that would still probably have to be paid in instalments because $300 is something I never have to just [say], 'Here you go'.

The amount considered affordable varied among participants and also according to the type of insurance discussed. For instance, participants seemed to expect to spend less for home contents than for car insurance, with amounts for the former ranging from $10 to $20 per fortnight.

One pensioner explained that even though she would like to have home contents insurance, she had never tried to get it because she knew she could not pay it out of her fortnightly payments. She estimated having about $20,000 in home contents, and emphasised that her decisions about insurance would be influenced by the cost of the premium and excess. For the premium, she suggested she would be able to afford about $20 per fortnight:

> I'd go up to $30, but at the moment I'm paying $26 [for a funeral fund] so then that'd be nearly $60 taken out of my pension every fortnight for starters, before I even see it. So $20, and that's $46 [per fortnight], that's nearly $50, it doesn't sound as bad as $60.

Like this woman, some participants prioritised payment of life insurance and funeral funds (popularly called 'death insurance'), instead of vehicle or contents insurance. One single father's decision to purchase life insurance was informed by what he considered the best long-term investment to protect his children's future:

> I started [life insurance] last week. See, I have four children and I'm a single father, it's a wise investment for the children's sake, in case anything happens to me. It's $50,000 each [for] all four of them. And funeral insurance, death insurance, where your funeral is covered up to $15,000 for each of my children and myself ... I have direct debit for the both insurances on the same day regularly, that way I'm always in front, always covered ... I was asked to do the income protection, the new one that's come out. I said yes but then I changed my mind and preferred to boost my life insurance from $100,000 to $200,000 to make it more equitable for the children, rather than worrying about income insurance.

The same participant confirmed he had never had car insurance and did not plan to take out a policy. He considered himself a good driver and the risk of making a driving mistake 'minimal'.

For many of the younger singles, their assessment of risk, cost of protection, and eventual economic impact of an incident, usually justified their decision not to take up insurance:

> I feel like I don't have enough to insure. It's only a couple of little things and the amount I'd end up paying in insurance would probably outweigh the cost of the actual things.

> I just don't have any stuff that's worth anything. Most of my stuff I've either picked up from the side of the road or from an op shop. I live in public housing, so it comes and goes pretty quickly. And that's probably my insurance policy, is just to have cheap stuff.

In addition to the cost of premiums, an important variable that affected participants' calculations of the value of insurance was the excesses. In fact many commented that even if they could afford the premium, they would not be able to pay the excess.

> The excess is a big issue for someone on a low-income, because often the excess is four or five hundred dollars.

> If you can't make that excess, you haven't got a claim because they don't pay out until you've paid your excess, and therefore you're in another catch 22 where you're covered, but you're not because you can't come up with the big excess to actually get them to process the claim.

The perception that paying the excess was a precondition of being paid out on a claim was shared by a number of participants, and suggested that some low-income consumers might not proceed with a claim if they could not afford the excess. One pensioner cited a friend who had car insurance but was anxious after she realised she could not pay the $400 excess after an accident:

> She [the friend] was going, 'Oh, where am I going to get $400 from?' You know, [she was] an elderly pensioner. I said, 'Well, what's wrong? You're insured'. She said, 'Yes, but you've got to pay an excess up front each time'. That was a big thing for her, knowing her, she's 77, still drives, and that was a big problem for her.

In another case, a participant decided to negotiate directly with the other party. He assessed that paying a settlement directly would be better than paying the excess and running the risk of having his premium increased due to a changed risk rating:

> I scratched another car and I left a note for them with my details. They got back to me with three quotes, all of which were just over about $400, between $500 and $600. If I'd claimed insurance on that I'd have to pay the first $400 [excess] myself, and the next amount was about $100 to $150, depending on the different quotes. If I'd gone to my insurance company with that, the amount of my insurance would have gone up the next year, and at that point it wasn't worth it. So in the end I came to an agreement with the people that I'd pay them a certain amount.

Payment options

Payment options directly affected whether insurance products were perceived as affordable and appropriate. As one person explained:

> I would not be able to afford more than a couple of hundred bucks a year, maybe three. But that would still probably have to be paid in instalments because $300 is something I never have to just go, 'Here you go'.

Monthly payment is one possible method to alleviate the affordability issue, and can assist with budgeting; however most low-income Australians budget fortnightly, and instalments are usually more expensive than paying annually. Periodic payments of insurance premiums also pose some risks for consumers if they miss payments.

Pursuant to the *Insurance Contracts Act 1984,* insurers can cancel an insurance contract due to an unpaid periodic premium payment where at least one instalment has remained unpaid for a period of at least one month and provided the insurer clearly informed the consumer in writing of the effect of the provision before the contract was signed. Even where an insurance contract has not been cancelled by the insurer, an insurer can deny a claim where at least one instalment has remained unpaid for at least 14 days. Insurers are not obliged to consider financial hardship when cancelling a policy or denying a claim on these grounds, and consumers reliant on periodic payment are at significant risk if a payment is missed.

Clearly the method of payment most supported by the participants was fortnightly automatic direct debits. Many people considered that access to Centrepay for insurance payments would be an attractive option. Considering that low-income earners usually do not have personal savings for 'one-off' payments and need to budget within their limited fortnightly income, this preference is not surprising. Centrepay reduces the risk of missing a payment, and is less noticeable for the consumer.

> Out of your wage, because then you're not getting that money, so you know it's going out to something and you don't miss it. When it was going out for the bed and other little things that I've had on lay-by, I didn't sort of miss it. It's only $20 here and there, you know. Like my funeral fund, I don't miss that.

> When it comes to how to pay, I'd say bank transfer—direct debit—would be the best design, that's a safe way.

One participant said that automatic payment was only an option if she trusted the organisation to which she was making the payment:

> As I say the only people who I let direct debit from my account are Centrelink, if I owe them money, or my union, to which I pay my union fees and they just take it straight out. But I don't trust [telecommunications provider] or gas companies or electric companies to do that because there's too many computer mistakes. Before computers, it was human error. So that's a real trust issue.

Understanding of insurance terms and conditions

In spite of the insurers' obligation to provide documentation in 'clear, concise and effective language' (ASIC 2010a), the focus group members indicated that the language used in product disclosure statements, and the lack of access to free, impartial information or advice, are additional barriers that reduce access to insurance. While some of this complexity is the result of regulatory requirements that are supposed to ensure disclosure, it is unfortunate that low-income consumers find it daunting (Sheehan & Renouf 2006). The language used and the space for multiple interpretations of some clauses, as well as the use of 'fine print' in long policy statements, accentuate the power imbalance that favours insurers over consumers, particularly those on low incomes who might be uncertain of how to access advice or information. The most recent exposure of the shortcomings associated with insurance contracts has occurred in the discussions over definitions of terms and exclusions that followed recent flooding in eastern Australia in early 2011. In this context, the Australian Government's announcement of a Natural Disaster Insurance Review, which will consider non-insurance, is a welcome measure.

Most research participants mentioned they do not read the fine print of contracts, and strongly recommended that clear language and plain English be used to make insurance more intelligible to lay people. They specifically raised the need for more clarity about exclusions and inclusions, so that they could easily identify exactly what was excluded in a particular policy.

> You've got to really read into these things, because you'll get a couple of pages, sign here and there, and it will say basically at the outset you're covered for this much. Then they'll send a booklet with it, with about 200 pages.

> That's the other thing with insurance policies. They're usually written in really fine writing and have all sorts of clauses that may or may not make the things that you're hoping are insured covered.

Their suggestions were in line with the recommendations of consumer advocacy and legal aid organisations in the *Fair Go in Insurance* campaign (AFCCRA 2011) and with the Australian government's renewed commitment to improve consumer protection in the insurance market.

In addition to the difficulties in understanding insurance terms and conditions, lack of free access to impartial information and advice about insurance appears to reinforce people's caution.

> We've got life insurance but with different companies, and sometimes you think you're getting rorted. What solicitor do we see? Does it cost money to ask the solicitor to read it for you and tell you if it's all legitimate? Do you know what I mean? There's not that access, neither.

> Maybe that would be something that would be important. Not only wording it more clearly or perhaps simply for low-income earners, but also maybe offering somebody who can go through it and somebody that has the knowledge to go through it.

During the focus groups, participants often asked for clarification about the meaning of terms such as 'liability', 'itemised' versus 'whole lot' cover, and 'excess'. While such terms may be defined on websites or in glossaries, these might be daunting for people with low literacy or limited formal education. Some were also uncertain about how to estimate the value of their assets and where to get assistance with this. One group was also particularly vocal in advocating free services to help them understand insurance contracts *before* committing to them.

Information overload

There are problems with an overload of information for many consumers, due to indigestible policy documents and the sheer variety of products and insurers, with limited means for simple comparison, which makes an informed product choice difficult. This overload has the effect of reducing people’s desire to fully investigate their options, with some customers failing to read and understand their policy documents. There are three elements that contribute to this situation:

- Policy documents contain an overload of indigestible information.
- A wide variety of products and insurers, with limited means for simple comparison, makes an informed product choice difficult.
- Impartial advice and concise information are often difficult to locate and access, especially free of charge.

Some within the industry acknowledge that many people do not read their product disclosure statements or other documents. On the issue of comparing products, one industry representative noted that many larger companies choose not to be represented on internet-based aggregators (comparison sites) as these services often rank products by price rather than by comparing the content of the policy. While aggregators make comparing policies easier from a price perspective, there may be some improvement needed, such as a table outlining product features and cover levels, rather than the current emphasis on price. One insurer promoted Choice, an independent publisher of consumer information, as their preferred comparison site, stating that the recommendations took into account more specific life circumstances and provided some balanced explanation.

Attitude towards insurance companies

Several comments from focus groups revealed distrust of insurers. This attitude, when combined with the high cost for intangible benefit, could be preventing some low-income Australians from even investigating insurance as an option.

One young participant who showed high aversion to the industry defined insurance as a ‘real gamble’. Another participant felt intimidated when talking to insurers:

> You sort of feel intimidated when you get there too, you know? I don’t know. Some of the things that they say, you feel that you have to go with the way they say, you feel like you have to go along with them. Or if you say no, you think, ‘Oh I won’t get it [the insurance]’.

Another participant had a negative experience of being involved in an accident caused by a third party and being pressured by the insurance company to pay for the damages. He eventually won his case in court, but that experience contributed to a scepticism towards insurers:

> I had [the insurance company] trying and pressuring me into paying this man’s damages. Because I knew I was completely right, and also had witnesses in the vehicle who were adults, I went to court. And the judge could see straight through it.

While the attitude of suspicion was common and examples of difficult interactions with insurers were mentioned, some participants who said they had claimed vehicle insurance were very happy with their experience:

> Yes, we just rang them and they said, 'Send the photograph and a receipt to say that [you] paid for it', and the next thing I knew, the money was there.

> I've got a girlfriend and she goes through [insurer] and she's told me nothing but good things about them ... she got hit [from behind], she hit someone else … and they've nothing but been so fantastic to her.

Although some participants spoke positively of their specific insurance provider, there was distrust of the industry as a whole. This was often based on personal cases or friends' negative experiences, but could also be associated with misinformation. A non–English speaking background woman, for instance, had car insurance but did not know about the excess. When she had an accident, she was informed she had to pay $1000. She did not have the money; and at the time of the focus group, she was still waiting and finding communication with her insurer difficult.

Taking into consideration the need to build trust and improve communication between the industry and low-income customers, we tried to identify how those who were insured had chosen their current provider. While price guided many choices, one couple mentioned that their choice was based on 'word of mouth' through the seniors groups they attended. This suggests that providers who are willing to design insurance products for low-income Australians could benefit from disseminating information through the specific networks and organisations that are trusted by their target audience.

Asset valuation

A well-known challenge of purchasing contents insurance is estimating the value of assets (ASIC 2005; Sheehan & Renouf 2006). Individuals' assessment of the cost-benefit of insurance is influenced by their estimation of the financial loss in case of an incident. When self-assessment generates an undervaluation of assets or replacement costs, it can negatively affect their interest in buying insurance.

When participants were asked to provide a rough figure of what they imagined would be required to totally replace their possessions, amounts varied considerably between younger and older adults. While for the young single participants $5000 was a reasonable amount, more mature participants estimated amounts from $10,000 to $30,000 for replacement of all whitegoods, furniture and essentials in the house:

> For everything, including clothing and all sorts of things, you'd be looking at [for a normal living standard] at least around $10,000 to $15,000 coverage, when you've got a family of five people.

The value attributed to possessions did not necessarily match market values. For single people, for instance, the most valuable items tended to have a personal significance. They included goods such as bicycle, musical instruments and cameras:

> I've got an iPhone and I've got insurance—I would rather pay because it's an iPhone and [the insurance] is only $10 a month. When you think about it, for two years, that's $240 insurance, but I'd rather pay that, knowing that if my phone gets stolen, if it breaks, it's going to be replaced. For me, that's affordable, and it's good they [the company] have made it affordable for me.

This difference between personal value and market value seems in line with the information received from the Tenants' Union of Victoria (TUV representative 2011, personal communication). According to the TUV, their experience has shown that often 'the loss of possessions of a personal nature causes greater distress than [the loss of] ordinary goods'.

Insurance for renters

As shown in the survey, those living in public housing and private rental properties are less likely to hold home contents insurance. Focus group participants who were renting were often unaware of the existence of insurance policies targeting renters.

Insurance with rent schemes overseas have increased access to home contents insurance for low-income earners. Since such schemes are little-known in Australia, the idea was presented to participants for feedback. There was consistent support, with participants particularly positive about the convenience of avoiding dealing with the insurer and being able to pay with their rent:

> So many people would take it up because it's young people moving into houses, young couples, young singles, young friends. I've lived in a house with friends. If when we signed up for the rent, the government house, they had said, 'Would you like to pay however much extra for the insurance?', straight away the people moving in would go 'Yes', because then we know it's a bit extra, it comes out with your rent as one sum.

> Already in a lot of public housing, if you've got a car park allocated to you, you pay for your car park space so much extra a fortnight on top of your rent. That same system, a few dollars extra, and you've got contents coverage.

Low-income singles living in shared houses, however, faced additional barriers to insure their home contents. Due to increased rental costs in Melbourne, some were pushed into insecure accommodation arrangements, such as living in 'unregistered' rooming houses and converted warehouses under precarious conditions. Many were forced to move into higher risk areas, where premiums are higher, if insurance is available at all:

> I guess where I live at the moment I'd probably have trouble getting contents insurance. There's four of us living there but we're all renting our rooms separately, the lock on my door is broken ... I know I could complain but it took me three and a half months of living in a tiny hovel of a room above a pub to find a place I could afford as a student on Newstart Allowance. There are various issues there to be fixed but I'm not in a position to complain, because I could lose my accommodation and be back in the situation I was where I was effectively homeless. And if the place is not secure, I can't see how you'd be able to get contents insurance.

'Invisible' barriers

While some of the barriers above also apply to the general population, the lack of appropriate insurance products for low-income earners places them in a situation of much higher vulnerability. Moreover, there are more subtle barriers which from the viewpoint of social inclusion deserve special attention.

Below are extracts from a focus group in which participants commented on problems that are rarely mentioned in public debates about access to insurance. Issues such as discrimination, the prolonged burden of past errors and self-exclusion deriving from the perception that they are not a profitable segment for the industry are additional barriers for some people.

Place-based discrimination

Although postcode-based pricing has already been mentioned in Chapter 4, there is further stigma attached to social housing and disadvantaged areas. In the following exchange, participants discussed the lack of respect that they felt often accompanied living in this type of housing:

> The first thing is that stigma, housing commission. The [outsiders' perceptions are that] you will be robbed in the next six months, therefore you're not worth it ...
>
> And in reality that's not the case.
>
> No, we're normal people.
>
> Well, insurance policies go by the area you live in, the suburb, the crime rates, this and that. So you can understand, as soon as you say [housing commission] flats, they're going to say, 'hang on a minute, high risk area. You're going to be paying ten times more than somebody with a lock-up garage in that their car is kept in.'

Insurance industry's attitude towards low-income earners

Flowing from the place-based discrimination that low-income Australians experience, many focus group participants distrusted insurers and believed that the industry had little interest in insuring them:

> We've all got to think about that as well, you've got to look at the big picture. These insurance companies have got people paying, rich people, paying money—they don't care, this much money will cover me for this, okay, pay for it. They're happy, they're getting their money. Why would they change for us? That's what I'm thinking. They're making their money. Why would they want to change?'

Past mistakes as a barrier to access insurance

Past mistakes can pose a barrier to getting insurance and are illustrated in the following extract, in which participants comment on the inequity of being viewed as 'a poor risk' by insurers even after having been discharged from the justice system years earlier.

> I think from my experience and from what other people are saying, maybe a lot of us have made silly mistakes in our life ... People make silly mistakes everywhere, but maybe we've had to pay for it more publicly, our mistakes, our dirty laundry is there.
>
> The stuff that you do when you're 18, you're probably not going to do it when you're 22. To have it stick with you for that amount of time, the five or seven years, whatever they choose to do with us. And every time you hear something like that, it brings you down, you feel, 'I'm trying to get out of this **** and I am still paying for it', even though you've done your crime, done your time …

These 'invisible' barriers contribute to make access to insurance more difficult for low-income Australians, and need to be kept in mind when addressing the more obvious barriers.

Vehicle insurance for apprentices

Particular attention was paid to vehicle insurance for apprentices, whose wages vary considerably depending on their course, year of study, and whether they are employed in the commercial or domestic sector (commercial wages can be almost double domestic wages). For this group a car is an occupational requirement, not only to improve their job opportunities but also for the day-to-day transport of work tools. But the costs of living and maintaining a vehicle draw heavily on their income, making car insurance difficult to afford:

> I've got to drive from Airport West to Mount Waverley, that's almost $100 just in CityLink [tolls].
>
> I've been driving to Dromana every day, it's been killing me.

> If I didn't have help from my parents I wouldn't be able to live [away from home] because with the wage you make, it's not enough to pay for the rent and all the bills and then living expenses as well.

Most of the apprentices were acutely aware of the need for vehicle insurance and would have liked to have comprehensive insurance but were only able to pay for third party cover.

With regard to the features they would like in a vehicle insurance product tailored for their needs, apprentices mentioned the option to pay weekly, fortnightly or monthly instalments; and cover for their work tools. Considering that the apprentices were uncertain whether their tools were currently covered, clarification from insurers could improve the relationship with this group of customers.

Summary

The survey and focus group data showed very clearly that the major barrier to having insurance cover for low-income Australians is affordability. Low-income Australians have an awareness of the role insurance plays in limiting risk and protecting assets, but adequate cover was unaffordable for many after accounting for their essential expenses. This is manifest in comparatively low levels of insurance and a relatively high proportion of uninsured vehicles. These low levels of insurance are also affected by other structural and cultural issues, which could be addressed by increased advice, better product design, better affordability and constructive partnerships.

The support for alternative payment methods such as with rent and via Centrepay shows that there is a desire for more convenient, secure payment options. Implementation of appropriate policies and payment methods would go some way to increasing the insurance cover and financial inclusion of low-income Australians.

6 Potential collaborative models

From this research, it is clear that overcoming the barriers to insurance for low-income Australians requires greater collaboration between multiple sectors in order to implement successful products. Two designs for such collaboration are presented below.

Figure 6.1 shows insurance offered in conjunction with community finance products such as Progress Loans and outlines the relationships and responsibilities of partners that would be involved in developing these products. This system requires community finance providers to engage with an insurer as a partner organisation, to offer insurance in conjunction with credit for essential purchases. As highlighted in Chapter 5, many community finance clients do not have contents or vehicle insurance, and this model provides an opportunity to develop and promote suitable products and payment options such as Centrepay.

Figure 6.1 Insurance provided as an optional extension to community finance products

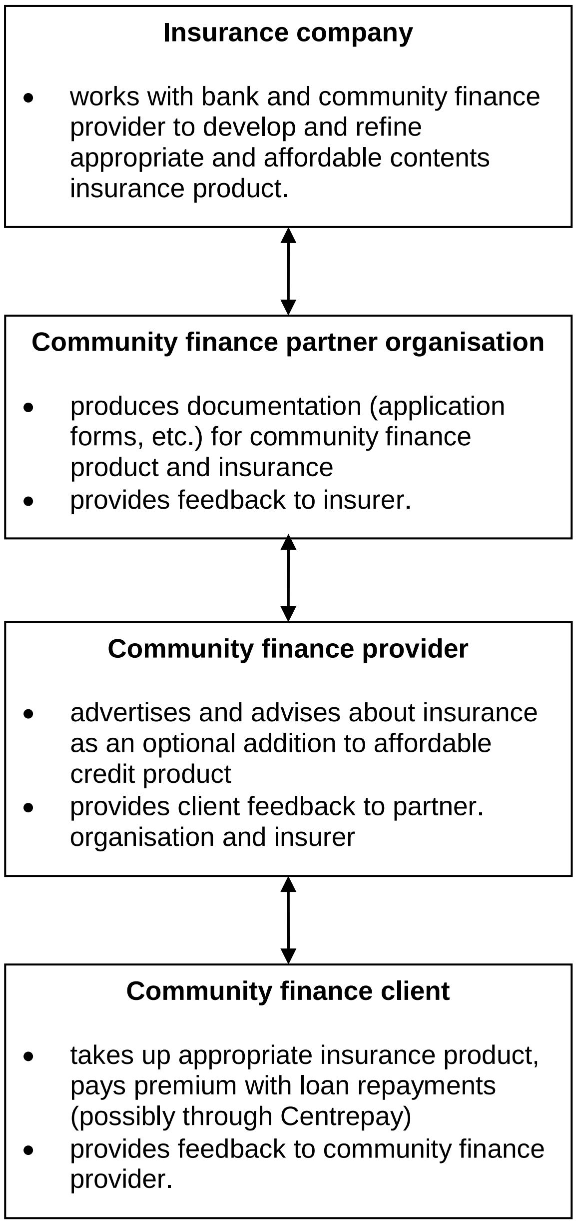

Figure 6.2 illustrates the relationships and responsibilities of organisations and individuals involved in implementing insurance with rent schemes. There are multiple ways of providing tenants with access to group purchasing arrangements, but the basic elements of an insurer, housing provider and tenants are essential to any design. The housing provider acts as a conduit for information and product distribution. Being able to pay premiums with Centrepay would be highly advantageous for tenants, smoothing the impact of insurance premiums on their budget.

Figure 6.2 Insurance provided through an insurance with rent scheme

Insurance company

- works with social or community housing provider to develop and refine appropriate and affordable contents insurance products for tenants
- produces documentation (application forms, information, etc.) for insurance with rent products.

↕

Housing provider

- publicises and advises about insurance with rent as an affordable option
- distributes and collects application forms
- provides client feedback to the insurer and suggest product refinements.

↕

Social or community housing tenant

- takes up appropriate insurance product
- pays premium with rent (potentially with Centrepay)
- provides feedback to community finance provider.

The development of products such as these is essential for increasing the accessibility of insurance for low-income Australians, particularly those in social or community housing, or utilising community finance products. As highlighted in Chapter 4, the two models presented face some regulatory compliance issues; however, regulatory relief is available for well-designed products serving the needs of consumers. Developing and implementing these products will require collaboration between insurers, community sector bodies and government entities.

7 Conclusions

This research shows that low-income Australians are aware of the benefits provided by, and even the ‘need’ for, insurance; however, many lack a nuanced understanding of the industry or the products. Low-income Australians desire a range of insurance products yet their insurance levels remain well below those of the general population. Cost is not the only barrier, but it has been shown to be the most salient barrier to being insured; financial pressure prevents many who hold some insurance from holding the cover they desire. The results indicate that not being able to *afford* insurance is the main issue. Although people may see insurance as expensive, very few people see it as a waste of money.

The quantitative and qualitative data collected in this research indicate that affordability is the main barrier that low-income Australians identify as preventing them from acquiring insurance or having greater cover. While affordability was the most immediate response to the question of barriers to insurance, other factors influenced the individuals’ attitudes toward insurance. Difficulties with understanding policy terms and conditions and lack of clear communication about available products and payment options often contributed to self-exclusion. Moreover, a lack of insurance products tailored for their level of assets and needs, the impact of the premium when managing a very restricted income and the perception that inability to pay the excess would prevent making a claim all contribute to their low take-up of insurance.

There is more to their insurance choices than affordability. Low-income Australians may choose some insurance products in favour of others, opting for products they view as more necessary or more useful in the event of ‘something going wrong’. To this end, many participants either held or desired funeral insurance, with some choosing to hold funeral insurance over other forms of insurance. Very few in the study did not believe in insurance, and the majority of respondents, including many who were satisfied with their current insurance, showed an interest in more insurance cover.

A lack of appropriate products reduces insurance uptake among low-income Australians. Third party vehicle insurance policies are insufficient for low-income earners as they can seldom afford to repair or replace their vehicle should it be damaged or written off. Although insurers claimed that the uninsured motorist extension is a beneficial feature, there are concerns that some insurers make it difficult to claim. In terms of home contents insurance, renters’ policies too were shown to be deficient in construction and the scope of protection they provided.

Due to the obstacles above, many low-income Australians are uncomfortable approaching insurers, or intermediaries such as banks. Although they want to be treated like ‘everyday people’, there is a perception that they will not be.

Furthermore, there are concerns within the community sector that a consumer may have a contract cancelled or be denied a claim where a periodic payment of an insurance premium is unpaid, perhaps because a direct-debit arrangement failed or the consumer had insufficient funds to cover it. Using Centrepay for insurance could reduce this risk, since the payment is made directly to the service provider, not via the recipient. Access to Centrepay could help many people with accessing and maintaining insurance.

There is a role for the not-for-profit sector and community groups in promoting and increasing insurance availability to low-income Australians. Community finance providers in particular are well placed to become distribution partners. Moreover, they have scope to provide much more information than is often realised, as the perceived regulatory barriers to providing financial information allow for relief in relevant circumstances.

The potential for group purchasing of home contents insurance, particularly through housing providers, deserves greater investigation and investment as a solution for renters. The availability of regulatory relief to complying applicants, and ASIC’s open attitude to creative solutions, invite development of group purchasing products such as insurance with rent schemes.

The challenge is for concerned parties to collaborate to develop and market more appropriate products through traditional channels and by more creative means such as insurance with rent schemes and insurance provided as an option accompanying community finance.

8 Recommendations

In light of the research and analysis presented in this report, it is recommended:

That alternative forms of payment for premiums be investigated and developed

- Insurance policies designed for low-income earners should allow payment of premiums by fortnightly instalments without increasing the annual total and through Centrepay, the system operated by Centrelink for easy payment of bills for those in receipt of government benefits. If relevant policies do not allow for fortnightly premium payments via Centrepay, the Commonwealth Government should make this mandatory.
- The Commonwealth Government and insurers should ensure that payments via Centrepay under the current $10 per fortnight minimum are accepted for insurance premiums, to maximise access to insurance products and allow premiums to be paid in manageable instalments.

That Commonwealth and state governments, insurers, housing providers and community sector organisations collaborate to develop appropriate and affordable home contents and vehicle insurance products for low-income Australians

- A working group comprising insurers, housing providers, community organisations, the Department of Human Services and the Department of Families, Housing, Community Services and Indigenous Affairs should be established to develop appropriate and affordable insurance with rent products for social and community housing tenants. These stakeholders should become familiar with relevant regulations and particularly the framework for regulatory relief.
- The Australian Securities and Investments Commission should provide clear guidance about the regulatory relief available to support group insurance schemes such as insurance with rent and work with providers to ensure compliance.
- Renters' insurance products must be developed with a focus on the needs of tenants rather than offering 'stripped-back' or 'no frills' home building and contents policies. These products should include:
    - cover for theft, fire, storm, flood, with optional accidental breakage cover
    - alternative accommodation if the dwelling becomes uninhabitable or unsafe
    - cover for all 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.
- Insurers should develop basic vehicle insurance products that include:
    - third party property cover
    - an indemnity value of perhaps $5000 for fire, theft and damage
    - an uninsured motorist extension that is simple to claim and widely promoted.
- Insurers should structure policies designed for low-income earners with a 'deductible' rather than an 'excess', so it is clear that the portion not covered by the insurer does not have to be paid prior to a claim proceeding; rather, the claim payment will be reduced by the deductible amount.

That plain-English information about policy holders' rights be made freely available

- All policy information should be clear, succinct and in plain English, and easily understood by people with limited financial literacy.
- The Australian Government's proposed key fact sheets should also be made mandatory for all types of insurance policies.
- The Commonwealth Government and insurers must ensure the general public is aware of their right to access internal and external dispute resolution services, especially the Financial Ombudsman's Service, and insurers must structure their disputes resolution process so that customers are not dissuaded from lodging a claim or complaint, and that claims and disputes are resolved in a reasonable time.

That opportunities to distribute insurance and information through community finance providers be developed by governments, insurers and the community sector

- Community finance providers should begin to develop and distribute appropriate and affordable insurance products, especially in conjunction with credit products (e.g. Progress Loans).
- The Australian Securities and Investments Commission should provide explicit guidance about the information that community finance workers can impart to consumers about appropriate and affordable insurance options, before straying into the territory of advice. ASIC should also consider offering regulatory relief if the regulatory framework is impeding appropriate information being imparted in a way that benefits consumers.

That resources be devoted to increasing awareness of the dangers of being uninsured

- Insurers, state and Commonwealth governments and housing providers must make a concerted effort to raise awareness of the dangers of being uninsured. This could be done through:
  - government advertising campaigns (possibly similar to those used for public health)
  - improved advertising for vehicle and contents insurance, focusing on risks and affordability of cover
  - information flyers available from social housing and community finance providers.

That legislative and regulatory reforms be implemented, to enhance protection for consumers

- The *Insurance Contracts Act 1984* should be reviewed so that a consumer who pays a premium in instalments cannot have their contract cancelled or a claim denied where non-payment of an instalment is due to financial difficulty or through no fault of their own.
- The Future of Financial Advice reforms (FOFA) should include regulatory exemptions for consumer finance workers so that they can provide advice about appropriate general insurance products for low-income consumers without needing to seek regulatory relief individually.

That further research be conducted relating to insurance for low-income Australians

- The reported problems associated with funeral insurance need to be explored. Extended research into international best practice for providing affordable, appropriate insurance as part of wider financial inclusion strategies should be considered. Further enquiry should also address those whose policies lapse and why they do not renew their insurance.

Appendix Insurance variables

Table A Variables influencing the cost, design, delivery and accessibility of insurance products, particularly contents insurance

Variable	Options
Provision	• Direct: The client must deal directly with the insurer when taking out a policy. • Indirect: The client deals with a trusted intermediary, such as a community finance worker or housing provider staff when taking out a policy.
Potential intermediaries	• Banks • Brokers (private or social enterprise) • Social enterprise (PPP, community-owned, government-mandated, not-for-profit sector partnership) • Housing providers
Delivery / purchasing method	• Online • Phone • Face-to-face written application
Contract and PDS distribution	• Readily available at all housing provider locations • Hard copy provided at time of purchase • Online
Claims submission	• Direct to the insurer or through an intermediary • Online, by phone, or in writing with standard forms
Availability	• Schemes dedicated to selected housing providers, or certain peak bodies, or available sector-wide • Regional, state-wide or nationally available
Premium collection	• Fortnightly, monthly or annual • By the insurer, or by an intermediary • Treatment of missing a premium instalment
Payment method	• Centrepay, with rent, direct-debit, cash.
Cover	• Starting point for minimum sum insured • Accident cover or not • New-for-old or indemnity cover • Extended cover options, such as vehicle or consolidating multiple policies with one insurer
Pricing	• Higher premium and lower excess • Lower premium and higher excess • Affordable premium and no excess • Pricing by provider, housing complex, region, state, postcode • Excess vs. deductibles
Marketing	• Personal mail-outs, email, awareness posters, new tenants information packs, brochures, industry representative visits • Responsibility of government, insurers, intermediaries, housing providers, and champions, or otherwise by agreement • Must come from a trusted source

Role of stakeholders	• **Government**: ensure regulations protect consumers but promote access and innovation; support schemes with policy and regulation; encourage pilot schemes and further research and analysis; provide funding where necessary; collaborate with other stakeholders. • **Insurers**: develop products; offer products; follow international best practice; support providers; understand needs of and constraints on clients; develop flexible systems; maintain affordability for all stakeholders; collaborate with other stakeholders. • **Housing providers (re home contents)**: accept responsibility for pursuing development; offer schemes for tenants; promote understanding of insurance by tenants; ensure security of housing stock; market schemes effectively. • **Community finance providers (re motor vehicle contents)**: encourage clients to consider insurance; inform clients of the risks associated with being uninsured; provide information about where clients may acquire appropriate insurance. • **Community sector**: educate clients; facilitate dialogue; conduct research; suggest policy; market product; collaborate with other stakeholders. • **Brokers/Intermediaries**: pursue uptake; promote understanding by clients; maintain affordability for all stakeholders; collaborate with stakeholders. • **Consumer groups**: support policy holders; provide policy and regulation suggestion; contribute to fair product development; collaborate with other stakeholders. • **Clients**: ensure their dwelling and possessions are secure; collaborate with other stakeholders.
Success measures	• Improved access • Uptake rate • Feedback • Improved security for tenants • International best practice recognition • Ease of applying and claiming.

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