



Brotherhood
of St Laurence

Working for an Australia free of poverty

Submission to the Natural Disaster
Insurance Review

Improving access to insurance for low-income Australians

Brotherhood of St Laurence

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Summary

As the *National Disaster Insurance Review* issues paper suggests, there are a range of issues that need addressing in relation to insurance in Australia, particularly relating to flood insurance. These issues are exacerbated for low-income Australians, who can least afford insurance and would also experience the greatest hardship in recovering from any loss.

The Brotherhood of St Laurence has been concerned about access to insurance for low-income Australians for some time. Over recent years we have conducted research into the barriers faced by low-income Australians when accessing insurance and proposed ways in which insurance access could be improved for the most vulnerable.

This submission highlights the findings of recent research by the Brotherhood, specifically relating to the insurance held by low-income Australians, their insurance aspirations, the barriers they identify to holding appropriate insurance and some recommendations relevant to a selection of questions from the issues paper.

It concludes that low-income Australians are aware of the benefits of purchasing insurance; however, they are unable to access appropriate insurance products owing to a range of barriers, most significantly affordability. A range of recommendations are made that would assist in increasing access to insurance for those who need it most.

1 The Brotherhood of St Laurence and insurance

The Brotherhood of St Laurence welcomes the opportunity to comment on the *National Disaster Insurance Review* issues paper.

The Brotherhood of St Laurence is an independent non-government organisation with strong community links that has been working to reduce poverty in Australia since the 1930s. Based in Melbourne, but with a national profile, the Brotherhood continues to fight for an Australia free of poverty, guided by principles of advocacy, innovation and sustainability. Our work includes direct service provision to people in need, the development of social enterprises to address inequality, research to better understand the causes and effects of poverty in Australia, and the development of policy solutions at both local and national levels.

The Brotherhood believes that all Australians have a right to fair and affordable access to basic services, including insurance. Insurance is a vital tool for protecting assets and providing a safety net against loss, including loss of income and other financial distress caused by unexpected life events.

Insurance could be of particular benefit to those who are currently least able to access it. To this end, the Brotherhood has conducted research into increasing access, understanding and uptake of insurance for low-income Australians. While acknowledging people's right to choose whether to be insured, we are concerned that many are denied the choice by not being able to access appropriate and affordable insurance products.

As part of our wider efforts to promote social inclusion, the Brotherhood also develops and demonstrates effective financial capability and asset-building programs for disadvantaged people, in order to address financial and market exclusion. Given this expertise, this submission seeks particularly to give a voice to the experiences of low-income people as consumers in the insurance sector, but also highlights concerns applicable to the whole population.

2 Low-income Australians and insurance

Having conducted and published extensive research examining insurance access and desires for low-income Australians, the Brotherhood is in a position to comment on insurance issues experienced by this already vulnerable group. The reality is that low-income Australians, including the working poor, beneficiaries, refugees, renters, young adults and pensioners, have the least resources to dedicate to recovery after a loss, but are least able to afford the protection and security provided by insurance in the first place (Connolly et al. 2011; Tooth & Barker 2007).

While acknowledging the need for reforms to simplify and clarify some aspects of the insurance industry, given the barriers to insurance already faced by low-income Australians, the Brotherhood encourages the committee to consider the impacts of any recommendations on the most vulnerable, so as not to increase the present levels of non-insurance and under-insurance among this group.

Although some people choose not to hold insurance, recent research shows that for many, insurance at their desired level is unobtainable (Collins 2011; Connolly et al. 2011).

Before addressing specific questions posed by the issues paper, we briefly outline some of our research findings to illustrate that low-income Australians are aware of insurance, generally desire a variety of insurance cover, but experience a range of barriers to accessing appropriate insurance cover.

Low-income Australians are aware of the benefits of insurance

The Brotherhood's research shows that low-income Australians are aware of insurance and the role it plays in protecting assets. Of the 200 low-income Australians surveyed in our recent research (Collins 2011):

- only 45% held home contents insurance, well under the commonly referenced national average of 77%
- 16% reported owning at least one vehicle but not holding third party or comprehensive vehicle insurance
- 76% held at least one insurance product
- 14% had never held any insurance.

Respondents we surveyed reported holding a range of insurance cover, including home contents, home building, life, private health, comprehensive and third party property vehicle, and funeral policies.

Low-income Australians desire higher insurance cover

As shown above, low-income Australians purchase a variety of insurance products; however, they also generally desire higher insurance cover than they presently hold:

- 68% of respondents desired higher insurance cover
- 34% desired higher home contents cover
- 9% desired higher home building cover
- 20% desired greater insurance cover on their vehicles.

Barriers to having more insurance

When asked about barriers to holding more insurance, the (un)affordability of insurance was the most common barrier. Other responses further indicated an acceptance that insurance is a vital asset protection tool, but for many it is unaffordable:

- Of respondents, 66% stated that insurance being too expensive or unaffordable was the main barrier to their holding more insurance.
- Only 10% reported having adequate cover.
- Only 1% didn't want any insurance.
- Only 1.5% viewed insurance as a waste of money.

The finding that affordability is the major barrier to low-income Australians holding the insurance cover they desire has support from other recent research, which indicated that almost 18% of Australians were unable to afford general insurance (Connolly et al. 2011).

Several studies (Collins 2011; Connolly et al. 2011; Sheehan & Renouf 2006) have identified other barriers contributing to prevent low-income Australians from holding appropriate insurance cover:

- limited literacy and numeracy
- lack of access to free and impartial advice about insurance products

- distrust of insurance companies
- a belief that insurance companies are not interested in insuring ‘the poor’
- restrictive payment options.

Clearly, many low-income Australians face a raft of serious barriers that prevent them from taking up appropriate insurance. In light of this information, this submission addresses selected questions from the issues paper, and encourages the committee to ensure the needs of low-income Australians are not overlooked in this review.

3 Responses to selected questions from the issues paper

Concerns surrounding levels of contents insurance

To what extent is the level of non-insurance for contents of concern to the community or to governments?

Non-insurance for contents is a major concern for the Brotherhood of St Laurence, as many of our clients would be unable to readily replace even modest assets. As our research shows, although low-income Australians desire contents insurance, for many it is not affordable, although they are the sector of the community who most need it.

To what extent is the level of under-insurance for contents of concern to the community or to governments?

Although the potential losses for someone who is under-insured are lower than for someone who is uninsured, the Brotherhood holds the same concerns, as the impact of being unable to totally replace the loss experienced by the under-insured is similar to the experience of the uninsured.

Non-insurance of homes: should home insurance be compulsory?

Are the data that suggest four per cent of owner occupiers do not hold home insurance reflective of the overall level of non-insurance of homes across Australia, taking into account other classes of residential property owners such as strata title property owners, investors and owners of holiday homes?

Data from the Brotherhood’s latest research indicates that the level of uninsured owner occupiers among low-income Australians is far higher than four per cent. In our study, 13 per cent of owner occupiers did not have home building insurance.

The Brotherhood is not in favour of compulsory home insurance, as people should have the choice not to insure their property, for whatever reason. The Brotherhood is of the view that if people who can access insurance decide not to avail themselves of it, they have made a choice to bear that risk. Our concern lies with those who are currently unable to access home or contents insurance, and could potentially be punished for being unable to afford it in future.

The Brotherhood of St Laurence would prefer to see increased access to appropriate insurance for all Australians, and collaborative efforts to heighten awareness of the dangers of being uninsured.

Affordability of contents insurance

Should measures to improve affordability of contents insurance be considered? What measures could be implemented to improve affordability?

Our research indicates that low-income Australians have an interest in alternative forms of premium payment that may make insurance more affordable and ease the impact of premiums on household budgets:

- 39 per cent of respondents in our research indicated high or some interest in being able to pay for insurance through Centrepay (deduction from their Centrelink benefit).
- 37 per cent of respondents in our research indicated high or some interest in being able to pay for insurance with rent.

Measures to improve the affordability of home contents insurance would be supported by the Brotherhood, especially where they focus on those currently excluded from the insurance market. To this end, the Brotherhood recommends:

- the introduction of concessions for Centrepay Healthcare Card holders to reduce premiums, as has been done for other essential services such as electricity.
- the Australian Government working with the insurance industry to make Centrelink's Centrepay facility available for payment of insurance premiums, on a fortnightly basis, and with the current \$10 minimum payment restriction waived for insurance.
- the development of group insurance schemes, such as 'insurance-with-rent' or similar products, with these products to be made widely available for social and community housing tenants.

4 Conclusion

Our research shows that low-income Australians are aware of the benefits provided by insurance; however, many lack a nuanced understanding of the industry and face a range of barriers. Although cost is not the only barrier, it is the most serious barrier to being insured for this group. It is important to note that very few of those surveyed considered insurance a waste of money.

The Brotherhood encourages the review panel to consider the needs of those who can least afford the risks of being uninsured, and recommends measures to address the current lack of access to affordable and appropriate insurance products.

References

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