

Helping low-income Australians access insurance

VCOSS Submission to the Senate Inquiry into
Australia's general insurance industry

February 2017

About VCOSS

The Victorian Council of Social Service (VCOSS) is the peak body of the social and community sector in Victoria. VCOSS members reflect the diversity of the sector and include large charities, peak organisations, small community services, advocacy groups, and individuals interested in social policy. In addition to supporting the sector, VCOSS represents the interests of vulnerable and disadvantaged Victorians in policy debates and advocates for the development of a sustainable, fair and equitable society.

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VCOSS acknowledges the traditional owners of country and pays its respects to Elders past and present.

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Executive Summary

The Victorian Council of Social Service (VCOSS) welcomes this opportunity to contribute to the Senate Standing Committee on Economics Inquiry into Australia's general insurance industry.

VCOSS is the peak body of the social and community sector in Victoria. In addition to supporting the development of the community sector, VCOSS represents the interests of vulnerable and disadvantaged Victorians in policy debates and advocates for the development of a sustainable, fair and equitable society. VCOSS has taken an interest in this inquiry due to the high levels of under- and non-insurance among people facing poverty and disadvantage, and their higher vulnerability to sudden financial loss due to unexpected material loss or during emergencies or disasters.

People on low incomes are the most vulnerable to financial stress and hardship and the least prepared to respond to cost-of-living pressures and other financially stressful life events. They have the least resources to recover from loss, but are least able to afford the protection and security that can be provided by insurance.

They face significantly lower levels of financial resilience and inclusion, increasing the likelihood that they are under- or non-insured. Financial education, access to financial products, and ensuring financial inclusion policies and practices are adopted by the insurance industry can support financial resilience and encourage the uptake of insurance among people living on low incomes.

In addition, the insurance products available to this group are both unaffordable and inaccessible. The lack of appropriate products, including insurance for individual items or goods, alongside the increasing cost of insurance and the lack of flexibility in payment options, puts this protective mechanism out of reach. Increasing affordability and accessibility can ensure that products are fit for purpose and ensure that people protected against loss.

Recommendations

To help ensure all Australians have access to appropriate insurance, particularly those living on low incomes, VCOSS makes the following recommendations:

1. To encourage understanding and uptake of insurance, and to meet the particular needs of people living on low incomes, the insurance industry should:
 - encourage and promote targeted financial resilience programs
 - adopt financial inclusion policies, including hardship programs.

2. To increase the affordability and accessibility of insurance products for people living on low incomes a range of products, payment options and mechanisms should be made available to make premiums easier to manage, including:
 - increasing the number of targeted products through more insurance companies
 - providing options for small amounts of cover
 - improving promotion of existing products targeted to people on low incomes
 - developing new products such as 'renters' insurance
 - considering exempting people on low-incomes from insurance stamp duties
 - offering fortnightly or weekly payment options
 - offering Centrepay payment options
 - providing information in Plain English as well as in other languages
 - offering free and impartial advice about insurance
 - partnering with community organisations to develop trust and deliver appropriate products

Insurance for people living on low incomes

People living on low incomes struggle to find and afford appropriate insurance products that meet their needs. They have the least resources to dedicate to recovery or replacement after a loss, and are least able to afford the protection and security provided by insurance in the first place.

The lack of adequate insurance leaves those most vulnerable to the risk of losing key assets they not able to replace. This is particularly concerning given that risks such as natural disasters, unemployment, the death of a breadwinner, permanent disability, business failure, and theft are the main events that can tip people into poverty.¹

In 2013-14, just over 4 million people in Australia lived in low income households – 2 million between 15 and 64 years, and 1.2 million 65 years or older.²

In 2015, around 2 million people experienced severe or high financial stress, are likely to be facing financial issues such as:

- limited economic resources resulting in problems paying debts or meeting cost of living expenses;
- low or very low levels of financial products and services such as limited access to or unmet demand for credit or insurance;
- limited financial knowledge and confidence.

In addition, 9 per cent of Australians had no access to any type of insurance, and 10 per cent expressed having an unmet need for insurance. 39 per cent had basic insurance cover, and 42 per cent had significant insurance cover. Further, 7 per cent had some limited insurance products, but were under-insured overall.³

¹ Collins, D., *Covering the Essentials: Increasing access and affordability of insurance for people on low incomes*, Good Shepherd Microfinance, 2103 pp. 7-8.

² Australian Council of Social Service and the Social Policy Research Centre, *Poverty in Australia 2016*, ACOSS & SPRC, 2016

³ Muir, K, et al *Financial Resilience in Australia 2015*, Centre for Social Impact (CSI) – University of New South Wales, for National Australia Bank 2016

Underinsurance insights

“Many of the individuals we spoke to were in precarious financial situations, living day to day and cost of living (housing, expenses, utilities, kids’ education, food, transport) was of their main focus. In fact, some had already seen financial counsellors (after being chased for unpaid bills) to seek help – typically women with families.

None that we spoke to felt they were able to get advice on how to improve their situation beyond what they were already doing. There was a sense that financial counsellors were not knowledgeable enough to provide meaningful help.

Some were on Government welfare (NewStart, Single parent benefits, pensions) - less so for those under 35 years. Some have had home insurance in the past but have lapsed due to financial difficulties or lifestyle (health, moving house, losing job).⁴

Low income is not the only indicator for a lack of insurance. Public tenants, people experiencing financial difficulties, younger people, people with fewer assets and single people are more likely to be uninsured.⁵

However people living on low incomes are aware of the benefit of insurance and the need to protect assets. Importantly they desire higher insurance cover than they can currently afford:

- 68 per cent desire higher insurance cover
- 34 per cent desire higher home contents cover
- 9 per cent desire higher home building cover
- 20 per cent desire greater insurance on their vehicles.⁶

Car insurance and unemployment

Young people aged 15 to 24 in the labour market face an unemployment rate of 12.8 per cent, and transport is an issue for more than 25 per cent of these. Limited access to transport may hinder the search for jobs, and the capacity to sustain employment once in a job. Young people tend to have lower incomes and fewer assets, which is likely to make them sensitive to rises in transport costs.

This is particularly true for young jobseekers who find work in low-paid and casual positions. The cost of purchasing, registering and insuring a car is beyond the capacity of many young people. They are particularly likely to rely on public transport services, which are in turn well known to be limited in the outer suburbs of Australia’s cities and in regional areas, where youth unemployment rates are often the highest – and hardest to dislodge.⁷

⁴ Essence Communications, *Essence DHHS Underinsurance Key Insights*, Essence, 2016

⁵ Sheehan, G, *Risk and reality: Access to general insurance for people on low incomes*, Brotherhood of St Laurence 2006

⁶ Brotherhood of St Laurence, *Submission to the Natural Disaster Insurance Review: Improving access to insurance for low-income Australians*, Brotherhood of St Laurence, 2011

⁷ Brotherhood of St Laurence, *U-turn: The transport woes of Australia’s young jobseekers*, Melbourne 2016

Financial resilience and financial inclusion

Recommendation

To encourage understanding and uptake of insurance, and to meet the particular needs of people living on low incomes, the insurance industry should:

- Encourage and promote targeted financial resilience programs
- Adopt financial inclusion policies, including hardship programs

People living on low incomes face significantly lower levels of financial resilience and inclusion, increasing the likelihood that they are under- or non-insured. Measures such as financial education, access to financial products and inclusion policies and practices can support financial resilience and encourage the uptake of insurance. In addition, adopting financial inclusion policies can ensure that insurance products are appropriate and affordable for people living on low incomes.

Financial resilience

Increasing levels of financial literacy and resilience can by association increase understanding of the protective value of insurance.

Financial resilience

Financial resilience is about access to four groups of resources:

- Economic resources (savings, debt management, meeting costs of living, raising funds in an emergency, income level);
- Financial products and services (access to and demand for financial products and services);
- Financial knowledge and behaviour (knowledge and understanding of financial products and services and ability/willingness to apply that knowledge); and
- Social capital (family, friend, community, and government networks and supports).

People with low levels of economic resources, financial knowledge and behaviour and social capital can have difficulty accessing financial products and services.

People with low incomes, including the unemployed and underemployed, are the most vulnerable to financial stress and hardship and the least prepared to respond to cost-of-living pressures and other financially stressful life events. They are the most likely to be under-insured or not insured, making recovery from these events difficult if not impossible.

Almost one in three of Australian households experience financial stress⁸ and one in five Australians has experienced at least one cash-flow problem in the last 12 months.⁹

The average annual cost of basic financial services in Australia (a basic transaction account, a low rate credit card and some basic general insurance) is \$1801: just to maintain a very simple level of service, with no additional features or benefits. For around 8.1% of the adult population this cost represents more than 15% of their annual pre-tax income.¹⁰

Almost half of the population is vulnerable in regard to financial knowledge and behaviour, with close to 48% of people reporting that they only have a 'basic understanding' of financial products and services and more than 9% reporting that they have 'no understanding'.¹¹

Financial education

The Australian Government and ASIC's MoneySmart website provides free and impartial financial guidance and tools to allow people to be better informed when making financial decisions. The website has 27 calculators and guidance on: borrowing and credit; superannuation and retirement; budgeting and saving; investing; and scams.

ANZ's MoneyMinded is a comprehensive suite of financial education resources for adults, used by financial counsellors and community educators. ANZ partners with community organisations who train financial counsellors and community educators to become accredited MoneyMinded facilitators and deliver financial education to their clients. Community organisations include the Brotherhood of St Laurence, Berry St and Kildonan UnitingCare.

In 2016, the Queensland Government issued a Financial Inclusion and Resilience Plan backed by a four-year budget allocation, that includes addressing the need for more accessible insurance, and supporting individuals and families to 'better prepare for and recover from financially stressful

⁸ Digital Finance Analytics and Monash University, *The stressed finance landscape data analysis*, Melbourne, 2015

⁹ Australian Bureau of Statistics, *General social survey: summary results, Australia, cat. no. 4159.0*, Canberra, 2014.

¹⁰ Centre for Social Impact, *Measuring Financial Exclusion In Australia*, CSI for National Australia Bank 2014

¹¹ Muir, K, et al *Financial Resilience in Australia 2015*, Centre for Social Impact (CSI) – University of New South Wales, for National Australia Bank 2016

disaster events and emergency incidents.¹² As part of the plan, the Queensland government is working in partnership with the Queensland Council of Social Service and a range of community organisations to improve access to financial information and advice.

There is a clear need to improve financial resilience overall, particularly for people living on low incomes. Financial education and appropriate financial products, including insurance, are key to improving financial resilience.

Financial inclusion

The insurance industry can better assist people living on low incomes by adopting financial inclusion policies and practices. Financial inclusion allows people experiencing exclusion and/or financial hardship effective access to financial services, including affordable insurance, as well as the opportunity to save and acquire assets, such as cars and homes. It also promotes financial literacy, enabling people to manage their money, make better financial decisions, enforce their legal rights and obtain their full financial entitlements.

Financial inclusion is a key component to the financial resilience of people living on low incomes. Without access to appropriate financial services, people may be unable to borrow at a fair rate, save for necessities, take out insurance or make provision for their future. This lack of financial inclusion, or financial exclusion, places people and families at risk of financial hardships including poverty, vulnerability to predatory lending practices and poor social, emotional and health outcomes.

Financial inclusion exists where individuals can access appropriate and affordable financial services and products – the key services and products are a transaction account, general insurance and a moderate amount of credit. These are best delivered through adopting policies and practices that address the needs of people on low incomes, who are facing financial hardship, or who are facing financial exclusion.

48 per cent percent of people in Australia have only a basic understanding of financial products and services.¹³ More than three million people (16.9 per cent of the adult population in Australia) are either fully excluded or severely excluded from financial services. This figure includes 1 per cent of adults who are fully excluded (they had no financial services products) and 15.9 per cent of adults who are severely excluded (they had only one financial services product).¹⁴

¹² State of Queensland (Department of Communities, Child Safety and Disability Services) *Queensland Financial Inclusion Plan 2016* p. 24

¹³ Centre for Social Impact, *Financial Resilience in Australia 2015*, CSI for National Australia Bank 2015

¹⁴ Connolly C, *Measuring Financial Exclusion in Australia*, Centre for Social Impact (CSI) – University of New South Wales, 2014, for National Australia Bank

Recommendations from the *General Insurance Code of Practice Independent Review 2012–2013* include that the Code standards should include a Financial Hardship Guideline and that the Code standards on education and training should include education and training on financial hardship.¹⁵

Good Shepherd Financial Inclusion Action Plans

In May 2015, the Minister for Social Services commissioned Good Shepherd Microfinance to conceive, develop, implement and monitor an effective Financial Inclusion Action Plan (FIAP) program. The FIAP program provides an opportunity for organisations to consider and take real action to realise financial inclusion and thereby enable economic mobility and resilience. By connecting and collaborating across sectors and industries, the program aims to create a more financially inclusive environment.

Individual organisations develop a Financial Inclusion Action Plan with actions designed to strengthen financial resilience for large numbers of people, including their employees and customers experiencing exclusion and hardship.

The first 12 Foundation FIAP organisations represent multiple sectors including financial services, energy providers, government, academia, and the community sector.

These organisations have committed to actions focused on enabling core aspects of financial inclusion and resilience, including the following:

- Hardship management and prevention programs designed to pre-empt and support existing customers facing financial hardship, through affordable, accessible products and services. Solutions include building capacity and resilience, including staff training for early identification of triggers, and offering holistic support.
- Support services for women facing family violence (including financial support, counselling, safe housing and community support) to allow them to get back on their feet. Research on the role of economic abuse and financial literacy, in the context of family violence.
- Access to affordable products and services (micro-loans, fee-free banking, savings, low-cost insurance) for those on low incomes.
- Access to inclusive products, services and employment opportunities for vulnerable groups particularly Indigenous and CALD community groups.
- Financial literacy and education for customers, staff and the wider community, to drive financial confidence, skills and capability.
- Employment pathways for vulnerable groups.¹⁶

¹⁵ Enright I, *General Insurance Code of Practice Independent Review 2012–2013* Final Report May 2013,

¹⁶ *Collective Actions, Leading Change: Financial Inclusion Action Plan Launch Report* November 2016, Good Shepherd Microfinance, EY, the Centre for Social Impact and the Australian Government.

Barriers to insurance

Recommendation

To increase the affordability and accessibility of insurance products for people living on low incomes a range of products, payment options and mechanisms should be made available to make premiums easier to manage, including:

- increasing the number of targeted products through more insurance companies
- providing options for small amounts of cover
- improving promotion of existing products targeted to people on low incomes
- developing new products such as 'renters' insurance
- considering exempting people on low-incomes from insurance stamp duties
- offering fortnightly or weekly payment options
- offering Centrepay payment options
- providing information in Plain English as well as in other languages
- offering free and impartial advice about insurance
- partnering with community organisations to develop trust and deliver appropriate products

Affordability, accessibility and trust are overwhelmingly the main barriers to insurance for people living on low incomes. High levels of confusion about insurance, particularly relating to coverage, premiums and claims, combined with a general mistrust of the insurance industry, indicates the need for significant change so all people, including those living on low incomes, can be adequately insured for loss and damage to their assets.

Affordability

With limited assets, the standard insurance products available are neither appropriate nor affordable for many people. People living on low incomes require targeted insurance that can cover individual items. Rather than an entire house and contents insurance policy, they need insurance to cover essential items such as whitegoods. Replacing computers or whitegoods can cause financial hardship and significantly disrupt daily lives, as these items are often simply too expensive to replace.

People living on low incomes do not always perceive the risk of losing their property to be high, for example, through theft, natural disaster, or accidents. In addition, they often do not perceive that

their belongings are valuable, and suppose they may be able to replace them with 'cheap second-hand goods'. Personal items such as laptops or phones are higher priorities for people living on low incomes for insurance in part due to higher risk of damage or loss compared with the perceived risks of something happening to one's home or contents.¹⁷

There are very few insurance products design for people living on low-incomes. *Essentials* was co-developed and is co-delivered by AAI and Good Shepherd Microfinance. This product is promoted through avenues that offer low cost finance to low income groups, including community organisations. Community organisations have significant insight into the needs of and are trusted by trust people living on low incomes. However while these products are actively promoted through community organisations, awareness of them remains low, as insurers do little to promote them. Increasing promotion of these products can increase their uptake.

The Aged Pension and insurance

*'Affordable is when a pensioner can get full coverage for everything, your house, your car and it's in our budget. We live on under 400 bucks a fortnight. You've got your rent, you've got your food, you've got your car, and you've got your registration. You've got your power, your gas, you've got everything and you just don't get there. Sorry, ends just don't meet.'*¹⁸

Costs added to insurance products, such as taxes and levies, increase premiums significantly. This has a disproportionate impact on people living on low incomes and can act as a disincentive. The Victorian Government currently levies a stamp duty of 10 per cent of the premium (including GST) on all general insurance policies. Reduction or elimination of this charge for people living on low incomes could make insurance more affordable, provided that it is passed on in full. The ACT government plans to remove stamp duty from all general insurance in a staged approach over a number of years. Governments could consider exempting low-income households from insurance stamp duties, helping reduce their cost.

Restrictive payment options are an additional barrier to people accessing insurance. Monthly, half-yearly or annual premiums are simply not affordable for them. The lack of flexible payment options, including weekly or fortnightly payments, use of Centrepay or other mechanisms is a disincentive and increases the unaffordability of insurance. Flexible payment options have been show to assist people to access insurance. For example, in the United Kingdom insurance can be paid via a Centrepay equivalent direct to the insurer, which maximises insurance rates for low income earners.

¹⁷ Essence Communications, *Essence DHHS Underinsurance key Insights*, Essence, 2016

¹⁸ Sheehan, G, *Risk and reality: Access to general insurance for people on low incomes*, Brotherhood of St Laurence 2006

Accessibility

A further barrier for people living on low incomes is the accessibility of insurance products. Many people find insurance a complex issue to navigate. For people living on low incomes or limited literacy and numeracy, lack of access to free and impartial advice, and a belief that insurance companies are not interested in insuring people on low incomes, exacerbate this issue.

Product Disclosure Statements are detailed documents often running to many pages long, and are not available in Plain English and rarely available in a language other than English. They can be insurmountably difficult to understand by people whose second language is English or those who have low literacy levels.

Details of inclusions, exclusions and excess payments can be hard to find and difficult to understand. In addition, insurance policies are complex and difficult to compare. Premiums can vary significantly, with little justification, and differences in inclusions, exclusions and excesses can mean comparisons are not equal. Many people, particularly older people, are sceptical about whether insurance will protect them. Concerns include:

- excess and premium costs outweighing insurance payouts
- insurance companies refusing to pay out
- natural disasters not being covered
- uncertainty about what insurance does and doesn't cover.

Access to independent financial information and advice is difficult for people living on low incomes. Financial advisers or legal experts who may be able to provide advice on insurance are expensive. Financial counsellors are not resourced to provide advice or information to consumers on insurance matters. Due to very low funding levels, financial counselling services prioritise people facing immediate financial crises, and therefore tend to specialise in areas such as credit law, debt enforcement practices, the bankruptcy regime, industry hardship policies and government concession frameworks.

Market research shows that governments are seen to be a trusted source of information by people who are under- or non-insured. It is important that sources are objective – Government is likely to be considered trustworthy, as are those bodies that are considered 'consumer rights' oriented.¹⁹

The Insurance Council of Australia itself recommended in its *Too Long; Didn't Read: Enhancing General Insurance Disclosure* report that:

- The industry should shift from a minimum mandated disclosure approach to best practice transparency to better assist consumers to choose a product that meets their needs.

¹⁹ Essence Communications, *Stakeholder Interviews on the issue of Non Insurance*, Essence, Melbourne 2016

- The Insurance Council should consolidate the insights from research to be commissioned to develop guidance under the General Insurance Code of Practice on the principles of transparency in fulfilling the Code's objectives around "more informed relations" between insurers and their customers and promoting "trust and confidence" in the industry.²⁰

People require clear and simple information that informs appropriate levels of protection through insurance. Increasing the accessibility of insurance products will in turn assist in increasing levels of financial resilience and inclusion.

Trust

The insurance industry does not enjoy a good reputation among people who live on low incomes. They are cynical and mistrusting of insurance companies and brokers, believing that they are 'rip-off merchants' and suffer from high pressure sales agents. This may also include a perception that insurance is more expensive (and unaffordable) than it actually is.²¹

Mistrust of insurance companies appears to impact on decision-making relating to insurance, and insurance is often viewed as a risk in and of itself.²² Many people feel that they are not seen by insurers as important or respected customers, and that the realities of making a claim are much more difficult than they are led to believe.²³

Recent market research also identified a lack of trust in insurance companies as a reason people choose not to insure: 'General distrust is present and many would not insure even if they had the money to.' This research indicated beliefs that insurance companies might not pay claims or specific items of value might not be covered, that even if the insurance companies paid out, they would still have to pay an excess that they could not afford. Many respondents also held the belief that natural disasters are not covered.²⁴

The perceptions show a mistrust of insurers and are a significant barrier to increasing levels of insurance coverage for low income people. However where insurance organisations have partnered with community organisations, levels of trust increase.

²⁰ Insurance Council of Australia, *Too Long; Didn't Read: Enhancing General Insurance Disclosure*, ICA 2015

²¹ Essence Communications, *Stakeholder Interviews on the issue of Non Insurance*, Essence 2016

²² Aither, *Strategy to tackle house and household contents underinsurance in Victoria: Workshop report*, Aither 2016

²³ Sheehan G et al, *Risk and reality: Access to general insurance for people in low incomes*, Brotherhood of St Laurence 2006

²⁴ Essence Communications, *DHHS Underinsurance: Creative Evaluation Report Findings* December 2016, p. 12.

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