Understanding the risks and realities of access to general insurance for people on low incomes

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Introduction
Many low-income Australians have no home or car insurance and are therefore exposed to the risks of fire, theft or accident. Over 50% of people on incomes less than $10,000 per annum and over 40% of people on incomes less than $20,000 do not have home contents insurance (ANZ 2004, p.14). For these people, a flood, fire or theft could push them further into poverty.

The Brotherhood of St Laurence is committed to poverty alleviation, but also preventing people falling into poverty. The impacts of a flood, fire or theft for the uninsured low income person can be severe and the Brotherhood is therefore interested in understanding the links between poverty and insurance and giving a voice to the experiences of low income people in obtaining insurance.

In 2005, AAMI and Australian Pensioners Insurance Agency funded a project to investigate the reasons that many low-income people are uninsured. The objective of the project was to identify barriers for people on low incomes in obtaining insurance as well as barriers for insurers in servicing this demographic. This conference paper is based on the report, *Risk and reality*, co-authored by Gordon Renouf. Analysis for the ‘Risk and Reality’ report was mainly based on the views of 72 focus group participants, most of whom were on a low income. The focus group discussions were supplemented by a literature review, a small-scale survey and feedback from AAMI.

Who is uninsured?
Part of the project involved identifying the demographic patterns amongst low people who were uninsured. Our analysis relied on a relatively small survey of 126 clients of community services and focus group participants who were not randomly selected. The findings are thus not a definitive guide to factors affecting non-insurance among low income earners, but they do suggest broad trends for future investigation. The survey showed that people who are single, young, unemployed, public tenants, have no other financial products, are experiencing financial difficulties or have few assets may be less likely to have insurance.

Why are people uninsured?
We were interested in exploring whether being uninsured is a choice made primarily on the basis of affordability, or whether there is a range of other reasons, including attitudes and previous dealings with insurance companies, the value of assets, financial literacy, the type of cover available and government regulations.

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1 This conference paper, including all quotes and statistics, is based on the report, *Risk and reality: access to general insurance for people on low incomes* by Genevieve Sheehan and Gordon Renouf. It can be downloaded at www.bsl.org.au/pdfs/risk_&_reality_insurance_report.pdf
**Affordability**

When asked why they were uninsured, many focus group participants initially responded that they could not afford the cost of premiums. For instance, a young man commented, ‘Insurance is a luxury when your income is that way—the numbers don’t add up’. Living on a low income can mean that people are forced to make some very difficult decisions about spending priorities. For many participants, the more immediate daily needs such as food, rent and bills were given priority. The benefits of insurance are less tangible and often become a lower priority. In addition, whilst some people commented insurance was too expensive, they did not appear to have shopped around. This suggests that for some people the perception of insurance being unaffordable may be as important as the reality.

Many people on low incomes manage their finances fortnightly, and so consider whether something is affordable in the context of their fortnightly budget. Both payment frequency and the total annual cost of the premium are key aspects of affordability, as noted by another participant: ‘A lot of people can’t afford to pay yearly, then you have the options of, say, quarterly and half-yearly. About a hundred dollars quarterly is still a lot of money.’

**Distrust**

A feeling of distrust and dissatisfaction with insurance companies appeared to be a significant barrier to taking out insurance for some in the focus groups. Many participants felt that there was a lack of reciprocity in their dealings with insurers. Many viewed the relationship between them and an insurer as ‘we pay premiums, you pay claims’. They had evidently heard the benefits in advertisements in which the process appeared simple. But many found the realities of making a claim much more difficult.

Many also felt that that they were not seen by insurers as important or respected customers. This meant they did not insist on the service they wanted and as a result chose to be uninsured. Participants commented ‘They don’t care about the little people’ and ‘They look down on you’.

Some elderly participants noted the changes in service provision by insurers, with one woman saying, ‘It’s not like it used to be’. They spoke of the insurance man who used to come and collect premiums every fortnight and assist them in making claims. Some participants lamented the general reduction of personal contact. Overall, they missed the contact with one person who was willing to oversee all their insurance issues. They seemed to see the new model as soulless and lacking in personal responsibility. One man said, ‘You’re just a number.’

**Other reasons**

Many people on low incomes live in areas that insurers consider to have high crime rates. Focus group participants felt victimised by the higher premiums for their suburbs, but did not appear to appreciate that premiums are priced according to risk. They wanted to feel safe and covered, but not pay a lot for it.

Many participants did not consider their assets worth insuring. In relation to comprehensive motor vehicle insurance, some people consciously decided not to insure as the premium was not seen as good value for their relatively low value vehicle, even if the car was important for their daily activity.

For some it seemed poverty had provided a degree of tolerance to losing assets. Some Somali refugees also pointed out that since they had arrived in Australia with nothing and had survived, they could suffer the loss of a vehicle or household goods with much less hardship than they had overcome earlier in their lives. However, it is hardly desirable for people to resign themselves to material loss.

Participants were not always able to distinguish between different options, especially in relation to motor vehicle insurance. Many people also found the policy difficult to understand. Most participants did not understand the trade-off between excess and premium and did not appreciate that an excess was about sharing the risk. Most participants felt the excess system was unfair. For instance a young woman remarked: ‘I don’t think there should be a basic excess. If you have an excess, then why are you insured?’
Some focus group participants had difficulty understanding policy information. One man spoke of the process of obtaining an insurance quote, saying ‘The questions all sound like mumbo jumbo’. Another woman felt that the complexity of the language used deterred her from obtaining insurance. She said ‘Honestly, another reason why I don’t [have insurance] is that they use all these big words and I’m just so confused … third party, comprehensive insurance [and so on].’

**Consequences of being uninsured**

While many participants stated that they were unable to afford the cost of premiums, discussions showed few could afford to replace damaged or stolen goods. When people spoke of experiences in times of crisis, it emerged that being uninsured ultimately was not the cheaper option. The cost ended up being borne by someone—be it family, friends, charities or the individual affected through high-cost credit or going without. This suggests that increasing levels of insurance amongst low income people is therefore an important aspect of poverty alleviation – and also helping to prevent people from falling into a crisis situation.

**Increasing access to insurance for people on low incomes**

There are a number of areas where action by insurers may assist in increasing the proportion of people on low incomes having insurance.

The insurance industry could consider addressing issues of affordability by creating no frills insurance products which might:

- allow fortnightly payments
- provide payment options which are convenient for low-income people, such as Centrepay
- provide an appropriate level of cover for people with limited household assets
- provide more options on the payment of an excess
- be structured as ‘disaster cover’—that is, claims are only payable in the event of substantial loss above a certain value.

The insurance industry could also consider promoting suitable insurance policies through public housing authorities and community organisations. This would increase the accessibility of products and might help to overcome any distrust of insurers.

Insurers and regulators need to work together to increase low income consumers’ understanding of insurance, for example in relation to what is covered and how excesses work. They should also ensure policy information is clear, succinct and easily understood by people with limited financial literacy.

**Conclusion**

For many people the consequences of a loss while being uninsured are serious. Each individual is entitled to make their own decisions about the risks they are prepared to bear. However, people on low incomes should not be discouraged or prevented from reducing their risks by barriers which are avoidable.

Removing the barriers between low-income people and insurance may be difficult. There needs to be cooperation between insurance companies, community and consumer organisations and government. The report, ‘Risk and Reality’ suggested innovations such as a pensioner insurance policy, clearer language in policy documents and partnerships with community organisations to improve access to insurance.

There will be considerable challenges in reaching uninsured people on low incomes and developing systems and products that meet their needs. As a result, take-up rates could be modest. This will also need to be balanced with the needs of an insurance company to provide a cost-effective service with sufficient funds available to meet claims.
We hope that the insurance industry, community and government sectors will embrace these challenges. This would create goodwill for insurers and the opportunity to broaden their customer base. Resources currently used by community organisations in emergency relief could be redirected to other pressing social needs. Most importantly, appropriate insurance policies could reduce the number of people on low incomes exposed to risks that they cannot afford. It could assist them to manage their vulnerability with dignity and prevent them from falling further into poverty.

References


Sheehan, G & Renouf, G. 2006 Risk and reality: Access to general insurance for people on low incomes, Brotherhood of St Laurence, Melbourne