Protecting the Basics

Insurance access for people on low incomes at risk from climate emergencies

SOUTH AUSTRALIAN COUNCIL OF SOCIAL SERVICE

Protecting the Basics: Insurance access for people on low incomes at risk from climate emergencies

First published in February 2022 by the South Australian Council of Social Service

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This work can be cited as: Freeman, T. 2022. *Protecting the Basics: Insurance access for people on low incomes at risk from climate emergencies.* South Australian Council of Social Service, Adelaide.

This project was funded under the Disaster Risk Reduction Grants Program funded by the Commonwealth Department of Home Affairs and the South Australian Government. Views and findings associated with this initiative/project are expressed independently and do not necessarily represent the views of State and Commonwealth funding bodies.

About SACOSS

The South Australian Council of Social Service (SACOSS) is the peak non-government representative body for health and community services in South Australia, and has a vision of justice, opportunity and shared wealth for all South Australians.

Our mission is to be a powerful and representative voice that leads and supports our community to take actions that achieve our vision, and to hold to account governments, businesses, and communities for actions that disadvantage vulnerable South Australians.

SACOSS aims to influence public policy in a way that promotes fair and just access to the goods and services required to live a decent life. We undertake research to help inform community service practice, advocacy and campaigning. We have more than 80 years' experience of social and economic policy and advocacy work that addresses issues impacting people living with poverty and disadvantage.

SACOSS has a membership base of around 200 people and organisations from a broad cross section of the social services arena. Members of our organisation span both small and large agencies, peak bodies, service providers, individuals, and some government departments.

SACOSS is part of a national network, consisting of the Australian Council of Social Service and other State and Territory Councils of Social Service.

Acknowledgements

SACOSS would like to thank the reference group members who generously lent their time, experience, and insights for this study:

Ananya Tiwari, Good Shepherd Australia New Zealand
Amanda Kemperman, Australian Red Cross
Kate Fox, South Australian Financial Counsellors Association

The project also benefitted from the experience and contributions of the following organisations, who lent their time to the project either through the stakeholder workshop, or other meetings and correspondence:

Adelaide Hills Council (Miranda Hampton)
Australian Competition and Consumer Commission (Nick O'Kane)
Australian Securities and Investments Commission
Brotherhood of St Laurence (Dina Bowman, Rebecca Pinney Medding, Catherine Cheng)
Essentials by AAI (Jasbir Mahal)
Suncorp (Annabelle Butler)
Financial Legal Rights Centre (Julia Davis)
Multicultural Communities Council of SA (Isabella Bracco)
National Insurance Brokers Association (Dallas Booth)
National Recovery and Resilience Agency (Michael Merriman, Megan Williams, Samantha Ward)
Uniting Communities (Abram Cunneen)
Victorian Council of Social Service (Bridget Tehan)
Western Australia Council of Social Service (Leela James)
South Australian Housing Authority (Tony Davis)
South Australian Residential Parks Residents Association
Community Legal Centres SA (Ippei Okazaki)

We are also very grateful for the contributors who preferred not to be listed, and for the extensive efforts of Fiona, Ruth & Amanda being the Good Money Salisbury Team, and the Housing team at Anglicare SA for supporting community focus groups. We thank all the participants of the community focus groups for their time and contributions.

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Summary

SACOSS undertook a six month project (June – Dec 2021) to investigate innovative funding models for home, contents, and vehicle insurance to improve access for people on low incomes. The concern was that as natural disasters increase due to climate change, people whose home, contents, and/or vehicles are uninsured may face catastrophic financial losses that push them into poverty, or further entrench their poverty.

Data on insurance take up are patchy, but suggest that approximately 1 in 15 to 1 in 10 low income home owning households do not have home insurance. Approximately 1 in 2 or 3 people on a low income do not have contents insurance, while 1 in 4 people on a low income with a vehicle do not have comprehensive vehicle insurance. Some surveys of people on low incomes have found far higher rates of uninsurance. Affordability of premiums is a major barrier to insurance take up.

A number of factors risk creating a potential perfect storm around uninsurance:

- Insurance premiums have been rising (doubled since 2000 in Adelaide), and will continue to rise with increased natural disasters.
- Financial strain on households has increased during the COVID-19 pandemic, with the risk that these households may let their insurance premium payments lapse, leaving them uninsured.
- Natural disasters are increasing due to climate change
- People on low incomes are more likely to live in areas with higher risk of natural disasters because the housing tends to be cheaper.
- People on low incomes are unlikely to have the resources or power to engage in much mitigation (because they're renting, and/or because of the cost).

All of these factors combined risk widespread uninsurance leading to the possible outcome described by Good Shepherd:

> "*A worst-case scenario is a series of large-scale and severe natural disasters in a short time-frame resulting in large numbers of people simultaneously descending into poverty and homelessness …. For this reason the issue of unrecoverable financial losses for low income [people] is extremely serious*." (Good Shepherd Microfinance, 2017, p. 2).

The research included a desktop review of national and international models, a workshop with nine non-government stakeholders, and three focus groups with community members (one with financial counselling clients, one with community housing tenants, and one with residential park residents, for a total of 19 community members).

The aims of the research were to:

1. Investigate national and international insurance funding models and explore innovative new approaches to funding insurance for people experiencing poverty and financial stress
2. Explore options to promote understanding about the importance of insurance and increase awareness about the full range of insurance products available, ensuring people can easily access information about affordable insurance.

Three key proposals emerged as viable and supported by stakeholders and community members to address access to insurance:

1. A concessions scheme for home, contents, and vehicle insurance for people on low incomes

Recommendations:

1a. <u>Home, contents, and vehicle insurance is subsidised for people on low incomes</u>. As well as making insurance premiums more affordable, this would signal the importance of people holding these insurance products, which may also facilitate greater uptake. This may best be achieved through the addition of a 'general insurance concession' to the current Concessions SA schemes for state Cost of Living, Energy, Water, Sewerage, and Residential Park Resident Concessions in South Australia. 1b. If concessions are introduced, <u>the government should resource non-government partner organisations to facilitate access to the concessions</u> for communities that would benefit from the support.

2. Contents insurance for social housing tenants

Recommendation:

2. <u>That the unique relationship between social housing providers and tenants be used to improve access to contents insurance for these tenants</u>. Social housing providers should purchase contents insurance on behalf of all their tenants. If this is not possible, social housing providers should provide an insurance-with-rent scheme modelled off similar products available in the UK.

3. Establish a not-for-profit mutual microinsurance

Recommendation:

3. <u>A not-for-profit, mutual microinsurance scheme is established</u> to cover home, contents, and vehicle insurance, with considerable government funding, and extensive community consultation. The emphasis would be on solidarity, and it would be embedded within a broader collective with multiple goals providing benefits beyond insurance, that allows community mobilisation and participation, and solely serves the needs of people experiencing disadvantage. This could be based on the CARD model from the Philippines.

These proposals are mutually reinforcing rather than mutually exclusive.

A number of models were considered and rejected as unlikely to be the best strategies to address affordability of insurance in South Australia: removing stamp duty, government reinsurance, group policies, parametric insurance, insurtech, peer to peer insurance, mutual aid, and pay as you drive car insurance.

We propose four means of funding the proposals that could be advocated for:

1. Increasing property taxes to offset the removal of stamp duty, and also fund access to insurance affordability initiatives.
2. Justifying the funding of access to insurance measures given the amount of income tax the government raises from insurance companies.
3. Redirecting some of the $6billion per annum government subsidies currently provided for private health insurance.
4. A tariff could be imposed on all insurers operating in Australia, to fund a pool that could be used to address access to insurance for people on low incomes.

The community consultations highlighted the different ways people seek information about insurance: online through comparison websites, or web searches, through insurance brokers, and through shopping around in person, as well as the fact that many people did not seek information about insurance.

The consultations highlighted the necessity of options for fortnightly payments and Centrepay to aid affordability of insurance premiums for people on low incomes, and the particular barriers faced by residents of residential parks, where there is no mandatory lease agreement for land. These led to two further recommendations:

4. Insurers should be required to provide fortnightly payment at no extra cost, and the option for Centrepay. The pursuit of any of the proposals presented here should emphasise the importance to affordability of fortnightly payment options and Centrepay.
5. The lease agreement regulation regarding land in residential parks should be reviewed to ensure it does not act as a barrier to access to building insurance for residents. Other barriers to access to insurance for people who live in caravans and/or have no fixed addressed should be explored.

The proposals we present here to address insurance need to be pursued alongside greater action on climate change, greater efforts to eliminate poverty, and reduced reliance on individualised resilience strategies such as household insurance. With climate change increasing natural disasters, redressing the current situation is urgent.

Introduction

As natural disasters become more frequent, people on low incomes who cannot afford home, contents or vehicle insurance are at greater risk of catastrophic loss if they are uninsured. A storm of interrelated pressures are threatening to exacerbate this problem - insurance premiums have been rising (SACOSS, 2020a), financial stressors on households have been increasing during the COVID-19 pandemic, and climate change is increasing the frequency and severity of natural disasters (IPCC Working Group I (WGI): Sixth Assessment Report, 2021). Widespread uninsurance could lead to the devastating outcomes described by Good Shepherd the next time natural disasters inevitably strike Australia:

> "*A worst-case scenario is a series of large-scale and severe natural disasters in a short time-frame resulting in large numbers of people simultaneously descending into poverty and homelessness …. For this reason the issue of unrecoverable financial losses for low income [people] is extremely serious*." (Good Shepherd Microfinance, 2017, p. 2).

This report summarises a six month (June – Dec 2021) research project by SACOSS, funded by a 2020 National Disaster Risk Reduction Framework Grant, to investigate innovative funding models to improve access to home, contents, and vehicle insurance for people on low incomes. These insurances were seen as most relevant to people on low incomes recovering from a natural disaster.

Project aims

3. Investigate national and international insurance funding models and explore innovative new approaches to funding insurance for people experiencing poverty and financial stress.
4. Explore options to promote understanding about the importance of insurance and increase awareness about the full range of insurance products available, ensuring people can easily access information about affordable insurance.

The issue: Affordability of insurance

While we lack accurate data on insurance take up, many studies have found lower rates of insurance among people on low incomes (Banks & Bowman, 2017; Collins, 2011; Maury & Lasater, 2020; SACOSS, 2020a; Tooth & Barker, 2007). What data we do have suggests that approximately 1 in 15 to 1 in 10 low income home owning households do not have home insurance. Approximately 1 in 2 or 3 people on a low income do not have contents insurance, while 1 in 4 people on a low income with a vehicle do not have comprehensive vehicle insurance. Some surveys of people with low incomes have found even lower rates of insurance. Maury and Lasater's (2020) auditing of people who had applied for no interest loans found only 8% held home and/or contents insurance, and only 30% had car insurance.

A number of studies have found affordability to be the main barrier to uptake of home, contents, and vehicle insurance for people on low incomes (Collins, 2011; Maury et al., 2021; Renouf & Sheehan, 2006). When all types of insurance are taken together, insurance is a greater cost for households on average than electricity, telecommunications, or health expenses (SACOSS, 2020a).

Insurance premiums have been increasing over recent years well above the average inflation rate: in Adelaide, insurance premiums have almost doubled since 2000 prices (SACOSS, 2020a). People on low incomes are more likely to let payment of their insurance premiums lapse (Banks & Bowman, 2017), and this may be exacerbated by the increase in households experiencing financial stress due to the COVID-19 pandemic, coupled with the increases in premiums over time (Australian Competition and Consumer Commission, 2020; Settle, 2021).

Research from the UK confirms that home and contents insurance rates are lower amongst households experiencing financial stress, and the likelihood of letting home or contents insurance lapse increases with financial stress (Whyley et al., 1998). Banks and Bowman (2017) note that stability of income is an important predictor of take up of insurance – the more erratic a household's income, the less likely they are to purchase insurance. This is vital in the context of high rates of non-standard employment, job insecurity, and the gig economy workforce in Australia (Laß & Wooden, 2019).

It is not just the affordability of premiums that are of concern, but the ability to pay the excess as well, if insurance is to serve people on low incomes. Such lump sums can be very difficult for people on low incomes to obtain (Renouf & Sheehan, 2006). This is a challenge, as increasing the excess is a common strategy to reduce premiums – as one increases, typically, the other decreases. The ACCC noted that most insurers allow the payment of excesses in instalments if the person is able to demonstrate financial hardship (Australian Competition and Consumer Commission, 2020), but no financial hardship allowances extend to the payment of insurance premiums.

Insurance and natural disasters

Holding insurance following a natural disaster reduces subsequent financial hardship and speeds up recovery (Kousky, 2019). Two studies were found that compared wellbeing outcomes of insured and uninsured people after a natural disaster, and both pointed to important wellbeing benefits. In the Philippines, households with natural calamity microinsurance were less likely to employ stressful coping strategies after a typhoon (e.g. taking loans, taking children out of school), or to need to deplete assets that may help them escape poverty (Morsink et al., 2011). The benefits were greatest for medium income families who were just above the poverty line. A survey of survivors of Hurricane Katrina found that those whose property loss was insured reported less psychological distress, and a greater perceived sense of recovery (Lee et al., 2009).

In South Australia, the two most frequent natural disasters are bushfires and flooding / extreme weather.

Bushfires. In the 2019-2020 Black Summer bushfire season in South Australia, 129 homes were destroyed, and 104 homes were damaged. The bushfires affected the Lower Eyre Peninsula, Keilira, Cudlee Creek and the surrounding Adelaide Hills, Port Lincoln, Yorketown, and Kangaroo Island (Keelty et al., 2020). An independent review stated that "A significant proportion of properties and businesses were underinsured or uninsured" (Keelty et al., 2020, p. 63). It is not reported what response was provided for these households, or how those people fared in recovery. The 2020-2021 state budget did include $6.2m in bushfire response initiative funding, which included: "temporary housing for those who lost their homes, establishment and management of recovery centres in Lobethal and Parndana, and personal and hardship reestablishment grants" (SACOSS, 2020b).

Areas of high socioeconomic disadvantage are more likely to suffer from bushfires than areas with less disadvantage (Akter & Grafton, 2021). This means that people on low incomes may be more likely to become victims of natural disasters, while being least likely to have the resources to insure or recover from them. Natural disasters have been found to exacerbate income inequality, and recovery funding may be contributing to this (Ulubasoglu, 2020). Ulubasoglu (2020) found that the 2009 Victorian Black Saturday bushfires widened income inequality between low and high income survivors, and that this widening still persisted seven years after the fires.

Flooding and extreme weather. Flooding is the most costly natural disaster in South Australia; average annual damages from flooding in the State exceed $32 million (Burns et al., 2017). A government review reported that "Adelaide is built on a natural floodplain and there are many dwellings situated within known flood risk areas" (p. xiv). A Deloitte research report identified flood risk in Charles Sturt and Port Adelaide as amongst the top ten areas at risk of new natural disaster threats nationally (Deloitte Access Economics, 2021). Port Adelaide is particularly of concern as an area with relatively considerable socio-economic disadvantage (Australian Bureau of Statistics, 2016). Flood cover has until recently been a frequent exclusion in insurance packages, which caused a public backlash against insurance companies after the 2010/11 Victorian floods (Commonwealth of Australia, 2011).

Severe storms can cause considerable property damage. In September 2016, a storm in South Australia caused major damage to 43 private dwellings, minor damage to 53 private dwellings, and damaged 14 vehicles (Burns et al., 2017).

Vehicle insurance

As well as home and contents insurance, this research focused on vehicle insurance. There are four levels of vehicle insurance in Australia:

1) Third party personal insurance, which is compulsory and paid as part of vehicle registration. This covers compensation payments to anyone injured or killed by the vehicle (but does not cover the costs of any damage to property or vehicles).
2) Third party property insurance – this optional insurance adds to #1 by also guarding people against potentially very large costs if they are at fault in an accident that causes damage to someone else's vehicle or property, but it does not insure the value of one's own vehicle. There has been some advocacy for making third party property insurance compulsory, but this has never been implemented (Robinson, 2017a).
3) Third party fire and theft insurance – this adds to #2 by also covering the policy holder's vehicle only for fire damage and theft.

4) Comprehensive insurance – this combines insuring the value of the vehicle in the case of an accident or other damage, plus third party property insurance (#2).

In Australia, approximately 75% of vehicles are covered by comprehensive insurance, while 13% have third party property, and 12% have only the compulsory third party personal insurance (Robinson, 2017a). About 1.3% of vehicles are unregistered, which means they lack even the compulsory third party personal insurance (Robinson, 2017a).

Vehicle insurance rates are likely to be lower for people on low income (Collins, 2011; Renouf & Sheehan, 2006). People on low incomes may feel the financial value of their vehicles are too low to be worth insuring, and/or may be unable to afford comprehensive insurance (Renouf & Sheehan, 2006). Premiums for vehicle insurance will be particularly high for young people, because of the higher risk of road accidents, and thus young people on low incomes may be at particular risk of uninsured vehicle losses during natural disasters.

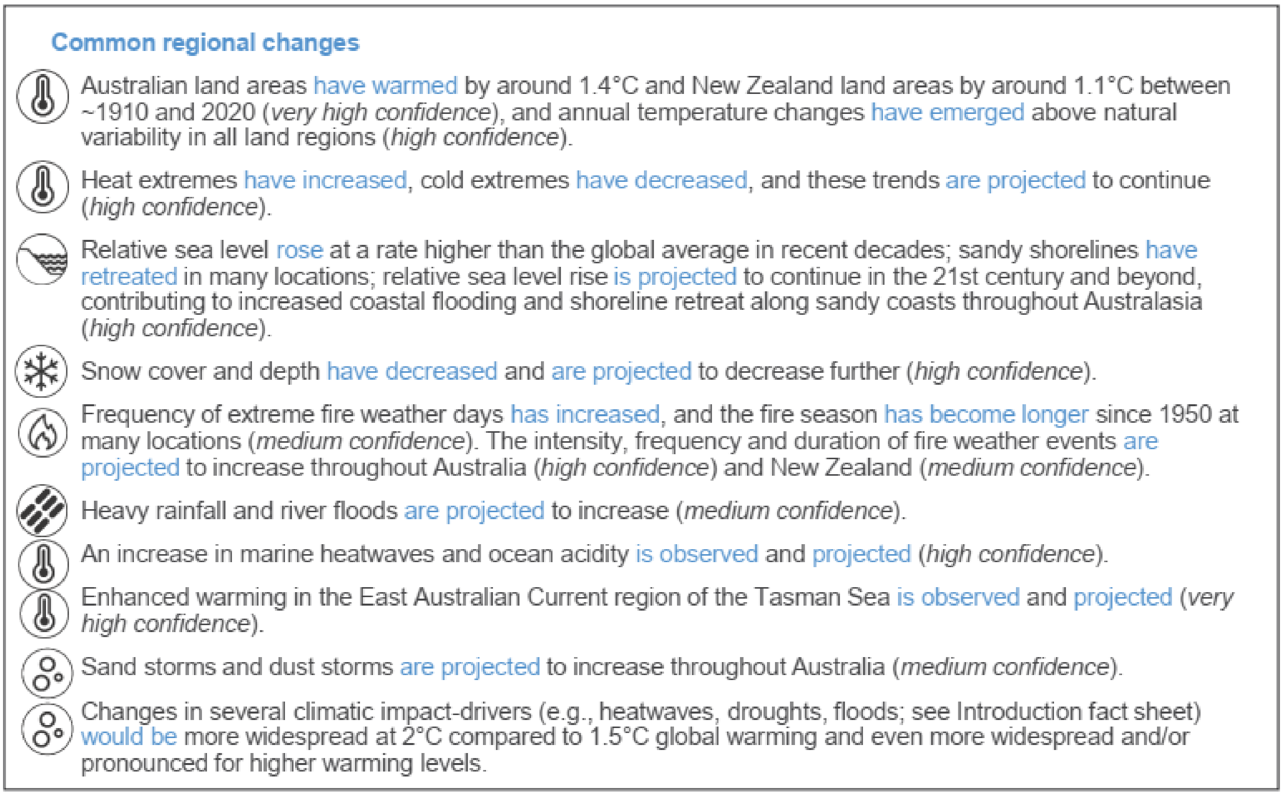
Of central consideration for this project is that only those people with comprehensive insurance will be assured of coverage if their vehicle is damaged by a natural disaster, such as bushfire or flood. Third party fire and theft insurance would cover people if their vehicles are damaged in a bushfire, and may cover other natural disasters. For example, Youi's third party fire and theft policy also covers earthquakes. However, only approximately 4% of car insurance policies in Australia are third party fire and theft (ASIC, 2011). Uptake of third party property policies are more frequent among people on low incomes (Collins, 2011), but we lack data on third party fire and theft in particular.

Vehicle owners on low incomes who do not have comprehensive insurance, or third party fire and theft insurance, would be left with a potentially catastrophic financial loss following a natural disaster, and risk being isolated because they have lost their transport, especially for people outside of urban areas. In the 2019-2020 South Australian bushfire season, 660 vehicles were lost or destroyed, and these would have been in regional areas (Keelty et al., 2020).

Climate change

The most recent Intergovernmental Panel on Climate Change report (IPCC Working Group I (WGI): Sixth Assessment Report, 2021) is clear that Australia has already warmed 1.4 degrees C, and in all future scenarios modelled, Southern Australia will receive less rainfall, and have more hotter days. The increased risk of natural disasters due to climate change in Australia is summarised in Figure 1 below. There will be greater risk of bushfires, droughts, floods, and coastal hazards from rising sea levels, coastal erosion, and coastal storms. The consequences of people being uninsured will drastically increase as the frequency of natural disasters continues to increase with climate change. The global insurance industry has issued warnings that property and casualty insurance risk will continue to increase with climate change, and that climate-related risks will be uninsurable if systemic action on climate change is not taken (Swiss Re Institute, 2021b, 2021a). Acting on climate change is critical to any success in containing the frequency and severity of natural disasters and mitigating their impact on society.

Figure 1. Increased risk of natural disasters due to climate change in Australia (reproduced from Intergovernmental Panel on Climate Change, 2021)**.**



Common regional changes

Australian land areas have warmed by around 1.4°C and New Zealand land areas by around 1.1°C between ~1910 and 2020 (*very high confidence*), and annual temperature changes have emerged above natural variability in all land regions (*high confidence*).

Heat extremes have increased, cold extremes have decreased, and these trends are projected to continue (*high confidence*).

Relative sea level rose at a rate higher than the global average in recent decades; sandy shorelines have retreated in many locations; relative sea level rise is projected to continue in the 21st century and beyond, contributing to increased coastal flooding and shoreline retreat along sandy coasts throughout Australasia (*high confidence*).

Snow cover and depth have decreased and are projected to decrease further (*high confidence*).

Frequency of extreme fire weather days has increased, and the fire season has become longer since 1950 at many locations (*medium confidence*). The intensity, frequency and duration of fire weather events are projected to increase throughout Australia (*high confidence*) and New Zealand (*medium confidence*).

Heavy rainfall and river floods are projected to increase (*medium confidence*).

An increase in marine heatwaves and ocean acidity is observed and projected (*high confidence*).

Enhanced warming in the East Australian Current region of the Tasman Sea is observed and projected (*very high confidence*).

Sand storms and dust storms are projected to increase throughout Australia (*medium confidence*).

Changes in several climatic impact-drivers (e.g., heatwaves, droughts, floods; see Introduction fact sheet) would be more widespread at 2°C compared to 1.5°C global warming and even more widespread and/or pronounced for higher warming levels.

The great risk shift

There is considerable emphasis in Australian disaster recovery policy on individual responsibility for risk mitigation, including through purchasing home, contents, and vehicle insurance (Australian Government Department of Home Affairs, 2018; Productivity Commission, 2014). Commentators have pointed out that this is part of a broader neoliberal trend in Australian (and global) politics of shifting responsibility from government to individuals (Lucas & Booth, 2020). Settle writes: “risk has been shifted off the books of the state and corporations and onto the books of the household in what Hacker terms ‘the great risk shift’” (Settle, 2020, p. 2)

Australia has one of the most pure market approaches to insurance in the world (Christophers, 2019; Lucas & Booth, 2020). Shifting such responsibility on to individuals, particularly people on low incomes, is unfair and inequitable. It is important therefore, that in seeking to maximise access to insurance for people on low income, this project does not perpetuate the individualisation of risk and responsibility, but rather focuses on solutions that emphasise solidarity, and call into play potential roles for government.

Banks and Bowman (2017) place insurance affordability within the context of the “riskscape” within which people on low income are forced to interact with multiple “failing markets” that leave them at risk of financial harm, including precarious labour markets, work that provides erratic income, systems that impose various poverty premiums, and an inadequate and punitive welfare system.

Banks and Bowman (2017) argue that measures to strengthen economic security alongside addressing insurance affordability is vital, including raising welfare payments and improving job security. The Northern Australian Insurance Premiums Taskforce took a similar view:

> “If the primary concern is that some low income households in northern Australia are experiencing financial hardship, with high insurance premiums being a contributing factor, then the appropriate response may be to treat insurance costs alongside other cost of living pressures in the context of the broader social security system.” (Northern Australia Insurance Premiums Taskforce, 2015, p. 76)

SACOSS is committed to advocating to reduce poverty, and for anti-poverty measures including raising welfare payments and addressing housing affordability, and has done so for many decades. SACOSS agrees that the issue of poverty and the cost of living needs to continue to be addressed alongside the urgent need to address access to home, contents, and vehicle insurance.

Government inquiries and intervention in the insurance industry

There have been government reviews into insurance and uninsurance that this research has drawn on:

- A 2011 Federal Treasury natural disaster insurance review focused particularly on flood insurance
- A Productivity Commission inquiry on natural disaster funding arrangements in 2014
- The Northern Australia Insurance Premiums Taskforce in 2015 focused on cyclone insurance
- A joint discussion paper on uninsurance and underinsurance was developed by the Victorian Department of Health and Human Services and VCOSS in 2017
- A senate inquiry into the general insurance industry was conducted in 2017, with particular reference to setting up a comparison website
- The Australian Competition & Consumer Commission were tasked with another inquiry into insurance in Northern Australia, and produced their final report in November 2020.

The main focus of most of these inquiries was that insurance premium risk pricing means that specific geographic areas with high natural disaster risk are charged higher insurance premiums. For example, the high risk of cyclones in parts of Northern Australia has led to exorbitant home insurance premiums for those areas, creating a crisis of affordability. In these inquiries, the policy problem of barriers to inclusion of people on low incomes in insurance appears to have been rarely considered outside of this risk pricing problem. One exception to this is that the 2020 ACCC inquiry report dedicates several chapters to issues of general affordability of insurance and recommendations to support inclusion of people in financial hardship.

This research focuses on ensuring access to insurance for all South Australians on low incomes. We acknowledge in South Australia, areas at high risk of natural disasters (especially bushfires) may face higher insurance premiums, affecting affordability, and that this issue is increasing with climate change.

Government intervention in insurance is usually justified as a response to a market failure, for example when coverage of home insurance is not available in a particular area because insurers decline to insure that area. Affordability concerns for people on low income doesn't reflect a market failure so much as reflecting that generally, market-based economies exclude people with low incomes from being able to benefit much from the market, which becomes increasingly problematic the more necessary goods or services become. Our argument is that in the face of increasing natural disasters, home, contents, and vehicle insurance must start being seen as a necessity like power, water, and food. Otherwise, more and more people will slide into poverty and potential homelessness after natural disasters, or have their poverty entrenched even further. There are also more economic arguments, particularly from low and middle income country contexts, that the safety net provided by insurance allows people on low incomes the freedom to invest savings into assets and improvements that allow them to escape poverty (Churchill & Matul, 2012). This is one of the principles underpinning global microinsurance efforts (Churchill & Matul, 2012).

Investigating a possible government role in natural disaster insurance has a long history in Australia. After Darwin was hit by Cyclone Tracy in 1974, the federal government agreed to introduce a national disaster insurance scheme. The initial report proposed insurance for earthquakes, floods, and tropical cyclones, but not bushfires (Latham et al., 2010). The scheme was to have government reinsurance. Cover was not going to be compulsory, despite the wishes of the otherwise supportive insurance industry, and "Special arrangements would be considered to assist those who, subject to a means test, could not afford to take out cover." (Latham et al., 2010, p. 24). Over time, the momentum for the proposal was lost, and Howard abandoned it when he became federal Treasurer in 1977.

In 2011, a natural disaster insurance review proposed a government agency overseeing national disaster insurance, introducing regulations on private national disaster insurance industry practices, and providing government reinsurance. However, the private insurance industry successfully lobbied the government not to enact these proposals, and there was no government intervention (Dolk & Penning-Rowsell, 2020). The verdicts of subsequent government inquiries (including the 2014 Productivity Commission inquiry) into national disaster insurance have come back largely against government intervention in the private insurance market.

The government has intervened in the private insurance market on two main occasions. The federal government intervened around terrorism insurance to create a reinsurance scheme when insurers withdrew their terrorism cover after the September 11 2001 terrorist attacks in the US (Latham et al., 2010; Palmer, 2014). The federal government also recently announced a $10b reinsurance pool for cyclone and related flood risk in Northern Australia, to help reduce insurance premiums for these perils in these areas (Treasury, 2021). This is due to be implemented by July 2022.

Australia's minimal intervention in the insurance industry is an outlier internationally. Christopher (2019) describes "market-based approaches, where individual households bear their 'own' risk and insurers set private policy premiums on the basis of the estimated probability of loss. Australia and Ireland are the only significant existing examples of this approach. Other countries, meanwhile, operate a range of hybrid approaches involving both the state and the insurance industry in some sort of combination" (Christophers, 2019, p. 9).

Previous work

This research builds on previous non-government reports and academic research that have provided strong leadership and innovation in this area. This includes five reports from the Brotherhood of St. Laurence from 2006 to 2107 gathering data on home, contents, and vehicle insurance for people on low incomes, and making recommendations. The Financial Legal Rights Centre has published a report on insurance for natural disasters and presented research on framing insurance as an essential service. Good Shepherd Australia New Zealand have published reports on uninsurance and have conducted research on insurance among their clients. SACOSS has examined insurance as part of the Cost of Living reports, and VCOSS has contributed to a discussion paper with the Victorian Department of Health and Human Services on uninsurance. Academics Dr. Antonia Settle (University of Melbourne) and Dr. Kate Booth (University of Tasmania) have published research on uninsurance in Australia. Finally, industry funded research documenting uninsurance has been published by Sapere Research Group.

Existing microinsurance products

'Microinsurance' is any insurance product specifically tailored to the needs of people on low income, who may be excluded from mainstream insurance (Churchill & Matul, 2012). It is an ever increasing industry globally, flourishing in many low and middle income countries (Churchill & Matul, 2012; Platteau et al., 2017). There is less documentation and fewer examples of microinsurance efforts in high income countries. Good Shepherd Australia New Zealand have worked in collaboration with insurance companies to develop two microinsurance products that are more affordable and tailored to people living on a low income:

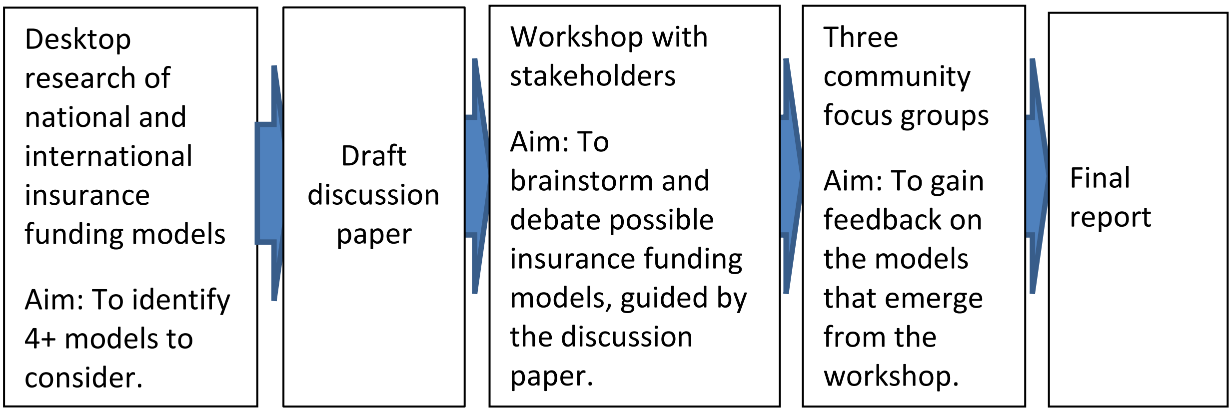
1) Essentials by AAI is a product developed by Good Shepherd and Suncorp to provide basic home, contents, and/or vehicle insurance. Launched in September 2015, it has lower excesses than mainstream insurance options ($100 or $300), and is available to people with a healthcare card, who receive Centrelink payments, or have an annual household income of $48,000 or less. AAI also worked on a more readable, illustrated product disclosure statement for the product (Lim, 2016). In one of our focus groups where Essentials was raised, feedback was unanimously positive in regard to price, service, ease of purchasing, paying out on claims, and trust. In another focus group, none of the participants had heard of it, suggesting it may not be well known.

2) Good Shepherd also partnered with IAG Labs to develop Insurance 4 That – a single item contents insurance option designed to be affordable for people on low incomes to cover critical items such as technology, medical devices, and whitegoods.

Methods

The six month research project is outlined in Figure 2.

Figure 2. Overview of the project methods



The research was guided by a reference group of stakeholders, including Good Shepherd Australia New Zealand, the Red Cross, and the SA Financial Counselling Association. The group met twice during the project, participated in the stakeholder workshop, and provided feedback via email.

Research scope

The general insurance products this project focused on are:

- Vehicle insurance
- Home and contents insurance for home owners
- Contents insurance for renters

We included parametric natural disaster insurance products that may help provide funds swiftly, e.g. for evacuation (such as B-Ready in the Philippines). We did not cover: life insurance, funeral insurance, health insurance or other insurance products.

We did not cover insurance for businesses, the potential role of insurance in encouraging natural disaster risk mitigation, or the process of making insurance claims. We did not cover the important but distinct issue of people being underinsured to replace their losses following a natural disaster.

This project focuses on access for people on low incomes. This includes people on income support, and the waged poor (who may also have some income support). SACOSS defines the waged poor as households whose main source of income is wages, and whose income falls below the relative poverty line (specified as 50% of the equivalised median household disposable income, after housing) (Law et al., 2019).

Communities over-represented in poverty include:

- <u>People from culturally and linguistically diverse communities</u> - who are more likely to be uninsured (DHHS & VCOSS, 2017; Tooth, 2012; Tooth & Barker, 2007).
- <u>Aboriginal and Torres Strait Islander peoples</u> - who are less likely to hold home and contents insurance (Australian Competition and Consumer Commission, 2020). A range of factors are known to drive high rates of financial exclusion of Aboriginal and Torres Strait Islander people, including challenges with identification documents,

geographic barriers, English language and financial literacy, and industry lack of attention to the needs of Aboriginal and Torres Strait Islander people (Commonwealth of Australia, 2018). Aboriginal communities have been the target of unethical, predatory insurance companies (Holden et al., 2020), and this may be a particular barrier to trust.

- Single parents (mothers in particular)
- People with chronic physical or mental health conditions or disabilities
- People living in regional and remote South Australia

Research has identified barriers to insurance uptake around lack of trust in insurers (that they will pay out, that natural disasters are covered, that the excess and premiums won't be more than the payout), and (English language) literacy issues when people are faced with complicated Product Disclosure Statements (Collins, 2011; VCOSS, 2017). Such issues were a secondary focus of the research.

Desktop research

A series of web and Google scholar searches were used to find key grey (e.g. media articles, industry blogs, government reports, non-government reports, and company annual reports) and peer reviewed literature (books, journal articles, and conference proceedings) on insurance funding models in Australia and internationally. References were also sourced from bibliographies of relevant sources. Several stakeholders also provided useful references. These iterative searches continued as new potential models and concepts were discovered, until saturation was reached and no new models or central references were emerging. A discussion paper was produced that presented a shortlist of seven proposals to address access to insurance for people on low incomes, and four rejected strategies. The desktop research was revisited and added to as new ideas and considerations emerged from the stakeholder workshops and community consultations. A total of over 200 sources were read and catalogued.

Stakeholder workshop

A stakeholder workshop with nine attendees from a range of non-government organisations was held on 24th September 2021. The seven proposals contained in the discussion paper were debated in depth, and were narrowed down to the proposals that the research ought to focus on.

Community consultation

Three focus groups were held with community members. The first group was conducted on 11th October 2021 with 12 clients (7 female, 5 male) of the Good Money store in Salisbury, organised with the help of Good Money staff. The second group was conducted on 9th November 2021, with 5 social housing tenants (4 female, 1 male) who had experienced vehicle damage in a recent hailstorm, organised with the help of Anglicare SA. The third group was conducted on 15th November with two representatives (2 male) of the South Australian Residential Parks Residents Association. In total, 19 community members participated in the consultations (11 female, 8 male).

Structure of the report

In this report we present three proposals that emerged from the desktop research, were refined following feedback at the stakeholder workshop and through other communications, and incorporate perspectives provided by community members in the consultation.

Secondly, we briefly outline the other options canvassed in the research, and provide the rationale for not pursuing the options further. Thirdly, the report considers four means of funding the proposals that could be advocated for. Finally, we report on insights gained from the community focus groups and stakeholder feedback on what avenues and strategies may complement the proposals to increase access to insurance for people on low incomes.

Insurance funding model proposals

The three key proposals to emerge from the research were:

1) Home, contents, and vehicle insurance should be subsidised for people on low incomes through a concessions scheme.
2) Social housing providers should purchase contents insurance on behalf of all their tenants. If this is not possible, social housing providers should provide an insurance-with-rent scheme modelled off similar initiatives in the UK.
3) A not-for-profit, mutual microinsurance organisation should be established with considerable government funding, and extensive community consultation.

Each of these proposals are discussed in turn. These proposals are mutually reinforcing rather than mutually exclusive, and are not presented in any particular order.

1. A concessions scheme for insurance

The ACCC inquiry concluded that direct subsidies, concessions or rebates would be the most efficient way to address affordability of insurance in Northern Australia in relation to cyclones and floods (Australian Competition and Consumer Commission, 2020). Such a scheme may hold the best promise for addressing affordability of general insurance in South Australia for people on low incomes as well.

While the ACCC reported that they could not find examples from other countries that had implemented concessions for general insurance, there is precedence in Australia in the form of 1) the rebates provided on private health insurance, and 2) other Australian cost of living concessions (Australian Competition and Consumer Commission, 2020).

There are widespread subsidies for property insurance in China. In the ‘Fujian model’, the provincial and municipal governments contract commercial insurers to provide blanket household insurance to all rural households, paid for by the government, setting a sum insured of US$813.50 per house. In the Zhejiang province, disaster insurance is subsidised by the provincial government and local government (Bester et al., 2018).

Insurance is an essential product

Concessions for power and water are provided on the basis that access to affordable water and energy is essential for life and well-being. We have argued in the previous Government inquiries and intervention in the insurance industry section that insurance also needs to be seen as an essential product. Good Shepherd have argued:

> "Insurance is an essential product for ensuring Australians, even those with modest assets and incomes are able to recover from shocks and are resilient in the event of losses." (Good Shepherd Microfinance, 2013, p. 2)

Government natural disaster planning relies on individuals purchasing appropriate insurance for their home, contents, and vehicles. The National Strategy for Disaster Resilience states:

> "Fundamental to the concept of disaster resilience, is that individuals and communities should be more self-reliant and prepared to take responsibility for the risks they live with. For a resilient nation, all members of the community need to understand their role in minimising the impacts of disasters"

This includes the priority outcome that "Individuals and businesses have a strong understanding of the availability and coverage of insurance." (Council of Australian Governments, 2011, p. 10)

The Australian Government Treasury argued "the private insurance market plays a critical role in protecting individuals and communities against loss caused by natural disasters" (Australian Government Treasury, 2018, p. 2). The fact that government has intervened when there has been access problems to insurance, such as for terrorism insurance, and home and contents insurance in Northern Australia, also supports the view that insurance is seen as an essential product for people to access.

However, many households cannot afford insurance premiums, especially people on low incomes, and people who live in areas at increased risk of natural disasters, who are faced with higher insurance premiums.

The argument of distorting risk pricing

One barrier to providing insurance concessions or subsidies is that conventional economic wisdom on natural disaster insurance heavily discourages altering premium pricing at all (Productivity Commission, 2014). The belief is that risk-based pricing motivates people to lower their risk through mitigation – such as moving away from a high risk area, or undertaking improvements to lower the risk to their property. The conventional fear of any intervention that moves away from pure risk-based pricing is that high risk people end up being subsidised by other policy holders, and that people are not motivated to undertake mitigation. Since this is such a ubiquitous concern in the literature, it is worth raising objections to this argument:

1) It is an unjust approach to social policy. Allowing people experiencing disadvantage to experience catastrophic losses to enable a pure market approach to insurance is not just, fair policy making. Some countries in recognition of this have opted for a

‘solidarity’ approach, with flat premiums regardless of risk – for example, Caisse Centrale de Réassurance in France (McAneney et al., 2016).

2) This argument particularly pertains to government intervention to address natural disaster risk to specific geographic areas – e.g. in the case of the recent Northern Australia example, properties in areas at high risk of cyclone damage. The concern is that discounting premiums for these areas does nothing to discourage building in high-risk areas. This issue is prominent in the UK, where much new housing continues to be built in flood risk areas (Christophers, 2019). Since the concern for this project is on affordability for people on low income broadly, rather than being geographically-based, the same concern does not directly apply.
3) The concern of the project is with people on low incomes, who are least likely to have the power or resources to engage in any mitigation efforts, especially those who rent. Mitigation is much more likely to be achieved by local, state, or federal government resourcing, intervention, and/or regulation. If the cost of the concession is borne by a level of government that can act to mitigate risk of natural disasters, then providing the concession may actually increase government motivation for mitigation if the concession is linked to the cost of insurance premiums. In Australia, there is interest in involving local government in insurance because local government has jurisdiction over land use planning decisions, and so could control if houses are being built in high risk areas (McAneney et al., 2016).

How to deliver the concessions

Subsidies could be provided through insurers, reducing the premium amount payable. However, given the individual pricing of premiums, there would be the risk that the subsidy is taken into account when calculating premiums, effectively risking the subsidy not being passed on in full to consumers (Northern Australia Insurance Premiums Taskforce, 2015), or the subsidy being used as a marker of higher risk, which would also lead to a higher premium. Providing the subsidies through other concession mechanisms would avoid these risks, even though this would mean people on low incomes would have to pay the premiums out of pocket, and then get some reimbursement, which would be detrimental to affordability.

There are state and federal concession schemes that insurance concessions could be provided through:

Rent Assistance (Federal). South Australians on income support who rent (but not public housing) are eligible for additional financial support through Rent Assistance from Services Australia (Centrelink). The current maximum fortnightly payment is $140.80 (for people paying at least $313 in rent per fortnight). Thus, it is only a contribution to basic rent payments. It is paid with other income support through Centrelink.

In Ontario, recipients of the Ontario Disability Support Program or Ontario Works receive financial assistance for shelter costs, which includes in its definition contents insurance, allowing recipients to have their contents insurance covered by the financial assistance. This seems to operate somewhat like Rent Assistance in Australia, except Rent Assistance is only designed to subside rental payments, not other shelter costs. While in theory this may make contents insurance more accessible, in reality, the total shelter costs are capped, and as in

Australia, appear to be vastly inadequate: “There is clearly a huge gap between the cost of shelter and the monthly Ontario Works shelter allowance” (Lightman et al., 2003, p. 14). There have been widespread calls to increase rent assistance in Australia, including by ACOSS, the Greens, and the Grattan Institute.

Cost of Living, Energy, Water, and Sewerage Concessions (State). South Australians with an eligible card, on income support, and/or who meet low income provisions (<$20k annual income for a single) are eligible for concession payments that cover cost of living, energy, water, and sewerage. Combined, the payments are up to $711.50 for renters, and $890.60 for homeowner-occupiers. Eligibility and payment amounts are assessed on 1 July for the financial year. The cost of living concession is transferred into the recipient’s bank account by electronic funds transfer, while the energy and water concessions are generally taken directly off people’s bills.

Residential park resident concessions (State). In addition to the cost of living concession, people who live in residential or caravan parks may be eligible for residential park resident concessions if they hold an eligible concession card or receive an eligible Centrelink payment. Recipients in 2021 received up to $554 per annum to help cover energy, water, and sewerage costs, which essentially parallels the energy, water, and sewerage concessions above. Concessions are paid quarterly by the Department of Human Services by electronic funds transfer.

After concerns about the insurance needs of people living in residential parks were raised in the first focus group, and in the literature (Wensing et al. (2003) reported that caravan park residents were at high risk of facing high living costs relative to incomes, and Renouf & Sheehan (2006) reported that residents struggle to find companies that will insure relocatable homes), a focus group was sought with representatives of the South Australian Residential Parks Association. A participant in that focus group cited from a recent survey they had conducted of the 99 registered residential parks in South Australia that there were 2,794 residential park residents in South Australia. Outside of “lifestyle residential parks”, which have age requirements of being over 50, or 55 years of age, residents were a broad mix of ages, and often experiencing socioeconomic marginalisation and disadvantage. The lifestyle residential parks category they saw as a growth industry, reporting 1,000-1,500 new homes in various stages of being planned or built around the state.

At least some residential parks require building insurance as part of the lease agreement. One key barrier to accessing insurance for residential parks residents was affordability, as many residents were low income, and there was general agreement that some of the proposals presented here would be helpful, including providing concessions.

A second barrier to accessing insurance was difficulty finding insurers who would insure the transportable homes. The stumbling block was reported to be concerning indemnity stemming from the unique situation of owning the house but not the land, and the lack of a mandatory standard lease for land. For a lease on a house, the landlord is required to provide a lease, using the mandatory standard lease. However, for land, there is a standard lease, which “goes through all the things that are in most agreements, and alleviates the problems about … indemnities” (focus group participant), but it’s not mandated. The resultant ambiguity around indemnity for the land was what participants reported made building insurance difficult to seek. One participant reported: ""The consequence is, we had companies including [named insurance companies], who refused to insure in the village because of the indemnity factor" (focus group participant).

While it would be possible to advocate federally for an addition to rent assistance to subsidise contents insurance, in South Australia, advocating for adding an insurance component to the cost of living concessions would have several advantages:

1. Since rent assistance does not cover the full cost of even basic rental payments, this lowers the potential to add on a further concession payment to rent assistance that would increase access to insurance. As in Ontario, it may become less effective because the total payment is still so insufficient. (However, it may still be possible to provide an additional concession payment upon receipt of a certificate of contents insurance)
2. The eligibility criteria for the state concessions are broader, covering people with low incomes who are not on income support.
3. The logic of providing concession for insurance through rent assistance would apply to contents insurance only, whereas the logic of insurance concessions through the state concession system would more logically cover home, contents, and vehicle insurance.
4. The state residential park resident concession may provide a good opportunity to ensure residents have access to insurance.

The most useful model may be a rebate through Concessions SA, where people who are eligible provide a certificate of insurance and receive a rebate that reflects a percentage of their premium back into their bank accounts. A percentage-based concession would:

1. Ensure vertical equity, where those with the most expensive premiums (for example, because they live in higher risk areas) receive more support than those with less expensive premiums,
2. Ensure the concession keeps pace automatically as insurance premiums are predicted to continue to increase over time, and
3. In theory provide further motivation for governments to mitigate natural disaster risk to keep insurance premiums from rising even further.

Facilitating access to the concession

It was highlighted by a stakeholder in the workshop that efforts would need to be put into raising awareness and supporting access to the concessions, particular for newer migrant communities. There is a strong model for this from Victoria, when the government provided the Power Saving Bonus as a one-off payment of $250 for households experiencing power bill stress. A range of partner community organisations are facilitating access to the payment, including Good Shepherd, the Brotherhood of St Laurence, Ethnic Community Council Victoria, the Consumer Policy Research Centre, and the Consumer Action Law Centre. These organisations support people to make the application for the payment. The Consumer Policy Research Centre have reported on how much this may have helped people access the benefit:

> ‘It was clear from both our research and on-the-ground experience supporting CALD households that without dedicated outreach in Melbourne’s diverse public housing high rise estates, many tenants would miss out on the Bonus. To ensure we could effectively engage with tenants on the estate, we recruited a team of people that speak the most common languages on the estates – Vietnamese, Mandarin, Cantonese, Somali and Oromo. Our new multi-lingual team hit the ground running, completing over 1,000 applications in a little over a month.” (https://cprc.org.au/2021/04/08/weve-been-pounding-the-pavement-to-deliver-the-250-power-saving-bonus-to-vulnerable-victorians/)

This outreach and awareness raising around available concessions is not standard practice in South Australia, outside of the efforts of financial counsellors. It would likely bring multiple benefits if such an inclusive, culturally responsive strategy like the Victorian example was resourced and pursued in South Australia. Such outreach would be particularly beneficial for an insurance concession, because insurance is a more complex proposition (compared to concessions for energy or water bills, for example) that may require the building of trust, and the provision of support in navigating considerable information to select and purchase an appropriate insurance policy.

Community consultation. The concessions proposal was met with enthusiasm by community members in the consultation. Participants were familiar with the South Australian concession schemes, including the residential parks concession system. One focus group expressed consensus that a 20% rebate on the price of insurance premiums would be a valued concession, and would make a difference to the affordability of premiums. A participant in another focus group felt “If you could get their insurance policies reduced by 10-15%, it would make a massive difference.” In another focus group it was noted that the concession could save enough money on the premiums to allow people to afford the cost of the excess.

There was widespread support for the concession being delivered through government avenues rather than through insurers, so that it would cover all insurance companies, because they didn’t trust that the insurers would pass on the rebate in full, and so that there was no shame or stigma attached with their dealings with the insurance company:

> “if we have a situation where we can go in like anyone else and ask for something, and it’s just in the fine print you found out that we’re low income and that we’re getting a better deal. Because there’s a lot of shame in this low income. Centrelink and that. It’s horrible.” (Focus group participant).

One reservation expressed by a few participants was that the government would recoup the cost of the concession by “pull[ing] it from somewhere else.” Participants in one focus group stressed that they didn’t want this concession to be in place of existing concessions – “we don’t want them taken away.”

Recommendations:

1a. Home, contents, and vehicle insurance is subsidised for people on low incomes. As well as making insurance premiums more affordable, this would signal the importance of people holding these insurance products, which may also facilitate greater uptake. This may best be achieved through the addition of a 'general insurance concession' to the current Concessions SA schemes for state Cost of Living, Energy, Water, Sewerage, and Residential Park Resident Concessions in South Australia.

1b. If concessions are introduced, the government should resource non-government partner organisations to facilitate access to the concessions for communities that would benefit from the support.

2. Contents insurance for social housing tenants

Social housing tenants can experience high levels of distress and hardship as a result of natural disasters (Jacobs & Williams, 2009). In 2020, 52,753 South Australians lived in public housing (South Australian Housing Trust, 2020) with a further 11,662 households living in community housing (Government of South Australia, 2019). Only 1 in 5 public housing tenants have contents insurance (SACOSS, 2020a).

Social housing provides a unique opportunity that private rental does not to provide support to tenants who are among the most disadvantaged and financially excluded people in the state. The landlord is either the government, or a not-for-profit organisation contracted by the government to provide housing, with a mandate to support the wellbeing of tenants.

One of the challenges of microinsurance is the balance between a 'full service model' that would allow clear, detailed communication and reach and provide support to low income households, but is costly, versus an imperative to keep premiums low. In some countries, including Ethiopia and Brazil, this is overcome through distributing insurance through existing government social programs to reach low income households (Skees, 2012). Social housing is one such possible avenue.

There are three different possible innovations that could be pursued to take advantage of social housing opportunities:

a) Social housing providers could purchase contents insurance for all tenants.

This option was also recommended by the Brotherhood of St. Laurence (Banks & Bowman, 2017). It has been successfully trialled in a social housing provider with 10,000 tenants in the UK, Paradigm Housing, in 2012 and continued (with the alteration after the trial year of removing accidental damage coverage) until 2016. It was withdrawn following a reduction in rent the provider could charge, leading to a downturn in revenue requiring cuts to expenses (Paradigm Housing Group, 2016).

Given all social housing properties presumably have building insurance, there may be opportunity to extend this to cover tenant contents, or to separately purchase a different microinsurance product, such as Essentials by AAI, on behalf of tenants. People exiting social housing could be supported with information to take out their own future contents insurance.

In providing a universal scheme, one lesson from Platteau et al. (2017) is the importance of educating policy holders about the insurance. Insurance is only effective if people know they have it, what it covers, and how to make claims.

Community consultation. This option met with approval in the community focus groups: "That would be really nice." People raised the question of how much worth of contents the insurance would cover, and how the insurer would know what the value of each tenant's contents was. In the UK Paradigm Housing trial, the sum insured was set "to a maximum of £10,000" for all tenants, regardless of the worth of their contents, and this would be the suggested model to employ in Australia.

b) Insurance with rent schemes could be provided by housing authorities

In the UK, many social housing providers have insurance with rent schemes, where tenants can opt-in and pay for their own contents insurance through low cost premiums that are automatically added to their rent payments (Hood et al., 2009; Whyley et al., 1998). This could considerably improve accessibility, especially if the insurance option was a good quality product, the scheme normalised insurance take up, there was clear, multi-language promotion of the scheme, and the scheme received the support of financial counsellors and other stakeholders.

For these UK schemes, products tailored to people on low income were developed. Premiums are a fraction (approximately 8-15%) of the price of standard commercial products, and the majority do not have excesses. The insurance is administered by the local authority (the public housing provider), which receives 15-20% of the premium in recompense (Hood et al., 2009). Similarly, in Ontario, the Social Housing Services Corporation created a wholly owned subsidiary SoHo Insurance, which provided very low cost contents insurance to its tenants (Collins, 2011).

However, such schemes are inferior to the first strategy since any premium payment reduces the finances available to people on low incomes, and take up will not be universal. Surveys of Scottish local authorities found an average take up rate of 14% among public housing tenants for insurance with rent schemes (Hood et al., 2009; Whyley et al., 1998). Whyley et al. (1998) also raise the concern of insurance lapsing for tenants who fall into arrears with rent: some UK insurance with rent schemes excluded such tenants, while others included them. A group contents insurance policy with a low sum insured per household is not likely to be an unreachable expense to the social housing provider, and coverage would then be universal.

In South Australian public housing (including Aboriginal housing), tenants pay rent weekly, which may be market rent or subsidised. It can be automatically debited from Centrelink, or paid through direct debit or other means. Essentials by AAI already allows fortnightly payment and a Centrelink CentrePay option, so it could be adjusted to accommodate a small weekly payment that Housing SA adds to the rental payment. Rent for community housing tenants is overseen by the Community housing rent policy but payment options vary slightly between community housing providers.

Community consultation. This option received the most enthusiastic support in focus groups out of all the project proposals, with participants responding that "I think it's a great idea" and "Personally, for me, that would be a really good option." Participants in social housing indicated that they would take it up if it was offered: "You could budget it a lot better…more manageable."

It was acknowledged that for those in community housing, the fact that the building was the responsibility of the state government, but the tenancy and rent was administered by a non-government organisation added an extra layer of complexity and ambiguity about the split of responsibility. Participants noted that it would have to be voluntary and opt-in, and that it could be part of the lease agreement. One participant noted the additional benefit that the administration of such a scheme would "create a few more jobs in the public sector."

Some participants with Essentials ended up with a similar arrangement where their premiums were taken out of their fortnightly Centrelink payments using Centrepay, and they were very positive about the arrangement: "My insurance comes out of my pension before I get it…Absolutely. It's a better way", ""At least we know, we haven't been kicked out. … It's done."

c) Housing authorities could promote appropriate insurance products

The least effective strategy would be to use the relationship as an opportunity to promote existing insurance products designed for people on low incomes, such as Essentials by AAI or 'Insurance 4 That', to boost awareness of these products among social housing tenants.

One possible regulatory barrier that would be a challenge for option b) or c) is the prohibition on hawking:

> "Under the hawking prohibition, a person must not, in the course of, or because of, an unsolicited contact with a retail client:
> - offer financial products for issue or sale; or
> - request or invite the client to ask or apply for financial products." (Australian Securities & Investments Commission, 2021, p. 4)

This may prohibit or at least discourage social housing authorities from raising contents insurance with their tenants, and inviting them to apply for an insurance product. However, ASIC allows organisations to apply for relief from the hawking prohibition if needed. ASIC have two initiatives that might also help pursue this proposal. Firstly, ASIC has introduced an 'enhanced regulatory sandbox' that 'allows natural persons and businesses to test certain innovative financial services or credit activities without first obtaining an Australian financial services (AFS) licence or Australian credit licence'. Secondly, ASIC has released the 'ASIC Corporations (Group Purchasing Bodies) Instrument 2018/751' which "relieves community groups and other organisations from regulatory burdens due to the low risk of consumer harm." These options may help community organisations to overcome any potential regulatory barriers to pursuing these proposals.

Recommendation:

2. That the unique relationship between social housing providers and tenants be used to improve access to contents insurance for these tenants. Social housing providers should purchase contents insurance on behalf of all their tenants. If this is not possible, social housing providers should provide an insurance-with-rent scheme modelled off similar products available in the UK.

3. A not-for-profit, mutual microinsurance organisation

The Brotherhood of St Laurence released a report advocating for not-for-profit insurance backed by government (Robinson, 2017b).

The positives would be that:

- a not-for-profit insurer would be able to provide lower premiums by forgoing a profit margin
- being backed by a government guarantee could help lower reinsurance and financial capital costs
- government would be free to subsidise premiums as much as desired, spreading the cost of insurance to people on low incomes among taxpayers
- a not-for-profit insurer may be more willing to invest in accessibility strategies such as making insurance information available in multiple languages, allowing weekly or fortnightly payments and payment methods such as Centrepay, and designing products most suitable to people on low incomes (Australian Competition and Consumer Commission, 2020; Robinson, 2017b).

The idea of a government insurer has met with resistance. The ACCC inquiry considered and rejected the option of a government insurer to provide cyclone insurance in Northern Australia (Australian Competition and Consumer Commission, 2020). The Victorian Department of Health and Human Services included as one proposed option the creation of a government insurer to address general insurance affordability, and rejected it (DHHS & VCOSS, 2017). The negatives are that creation of a government or not-for-profit insurer would be a large undertaking, representing a very substantial time and financial opportunity cost. It would require extensive insurance skills, knowledge and experience, with the ACCC noting that a new government insurer would face the barrier of "a lack of claims data and experience in pricing catastrophe risk" (Australian Competition and Consumer Commission, 2020, p. 171).

This lack of capacity could be solved by nationalising insurance, allowing the government to bring private industry expertise into a public system. There is precedence for this - from France in 1945, Sri Lanka in 1961 (to create the Sri Lanka Insurance Corporation), Portugal in 1974, and India in 1972 (to create the General Insurance Corporation of India). However, in Australia the Labor government's 1947 desire to nationalise the banking industry was thwarted by a High Court ruling that it was unconstitutional. In India, to boost the insurance expertise of the mutual NGO VimoSEWA, three strategies were used: an international donor funded an experienced insurance expert to coach VimoSEWA staff, VimoSEWA hired key executives from the insurance industry, and they gained experience through partnering with private insurance companies (Garand, 2005).

All state governments have established government-owned insurance companies in the past, such as SGIC in South Australia, and SGIO in Western Australia (Fronsko & Woodroffe, 2017). In South Australia, SGIC was established in 1972 as an alternative provider of general insurance, particularly household and vehicle insurance. Ken Tauber, one time deputy chair of SGIC reported that SGIC was established to achieve two aims: “One was to enhance general insurance services to the community of South Australia and the other was to use the pool of accumulated premiums in the interests of investment and worthwhile projects in South Australia.” However, all states sold off these insurance companies in the 1990s, in part because they were seen as risky assets for the government to hold (Fronsko & Woodroffe, 2017). SGIC was sold off in 1996 to SGIO, which was later acquired by NRMA (now IAG) (Keneley & McKenzie, 2008).

Internationally, government insurers have typically focused on a single peril– such as the USA National Flood Insurance Program, or New Zealand’s Earthquake Commission. To address affordability for people on low incomes through a government insurer, however, a comprehensive, multi-peril insurance product would need to be provided, in full competition with private insurance products but at a more affordable price. One way to avoid this competition would be for the insurance products to be available only for people who met criteria for being on low incomes, who are largely not catered for by mainstream insurance anyway. Essentials by AAI already has inclusion criteria that restricts availability of the product to people on low incomes.

Mutual microinsurance

There are a number of innovative insurance models focused on groups and solidarity that offer an alternative to traditional commercial insurance: mutual microinsurance, peer to peer models, and mutual aid. A review of the literature on these models suggested that mutual microinsurance holds the most promise; the remaining two models are discussed in the ‘Models considered and rejected’ section.

A mutual or cooperative insurance product is one that is owned by members and is not for profit. These are very common globally, including in Australia, particularly for health insurance. In terms of current not-for-profit general insurance, member organisations such as credit unions provide insurance, but through private insurance companies. For example, Credit Union SA sells Allianz home and contents insurance, and People’s Choice sells CGU home and contents insurance. It is not clear how to categorise royal automobile clubs’ insurance offerings. These clubs are not for profit, mutual organisations designed to benefit members. For some of these clubs, the insurance is provided by a for-profit private provider (including NRMA and RACV). In South Australia, the club is the RAA, with insurance provided by subsidiary RAA Insurance. In 2019-20, RAA Insurance earned $315m in premiums, and after claims, purchasing reinsurance, and other costs, made over $23m profit, which appears to be absorbed into the RAA group’s finances. RACQ in Queensland and RAC in WA appear to work on a similar model. It is unclear whether these insurance companies operate any differently from other private sector insurance companies, and if their position within a mutual organisation offers any advantages or not.

Mutual microinsurance is mutual insurance that focuses on serving the needs of people on low incomes, which is not the central focus of credit unions or automobile clubs, which provide traditional, mainstream insurance. A strong example of mutual microinsurance is the Center for Agriculture and Rural Development (CARD), a microfinance NGO in the Philippines. It has a focus on the welfare of marginalised women. CARD provides mutual aid life insurance through their Mutual Benefit Association (CARD-MBA), which has been profiled by the Cambridge Institute for Sustainability Leadership (2019). CARD also partners with a private insurer to provide general insurance through CARD Pioneer (regulation in the Philippines requires a private partner for general insurance), including a disaster insurance product, Sagip. Sagip covers personal accident, funeral, fire, typhoon-flood, and earthquakes for USD$1 a week. In 2018 Sagip had 257,034 policy holders.

There are over 6 million CARD MBA life insurance policyholders (International Cooperative and Mutual Insuranance Federation & UN Office for Disaster Risk Reduction, 2021), of which 76% are female, and 35% live below the poverty line. Low renewal rates are often a problem for the viability of microinsurance, but CARD MBA has achieved a renewal ratio of over 93% (Cambridge Institute for Sustainability Leadership, 2019). Community mobilisation is central to CARD MBA. Members are organised into community centres of up to 30 policyholders, with a member's house usually serving as a community centre, fostering close ties of support and allowing product information, disaster risk reduction, severe weather warnings and disaster relief to be shared. Weekly meetings are held, where premiums are collected. Community groups elect a centre chief, who disseminates information to the group, and provides member feedback back to CARD. Claims are validated by volunteer coordinators. Thus, high levels of trust and strong social networks are developed. CARD MBA report having no interest in using technology to reduce this human contact, as they see it as essential to how the organisation operates. Members also have a strong say in the running of CARD MBA, through a board of 15 members, 13 of whom must be policyholders who have served as coordinators.

Typhoon Haiyan devastated the Philippines in 2013, causing over 6,000 deaths. The CARD Group (20 'mutually reinforcing' institutions with 17,000 total staff, that provide microfinance credit, insurance, banking, financial education, investment, healthcare, publishing, and aid) provided a supportive ecosystem that allowed CARD-MBA the strengths it displayed after Haiyan. CARD MBA paid 603 life insurance claims and 8,296 disaster insurance claims (a previous product to Sagip), while other CARD members were helped through solidarity and calamity loans. It is unclear whether CARD MBA had reinsurance at the time of Typhoon Haiyan, or if it met the payouts through its own reserves. Since 2014, CARD MBA has been reinsured through the National Reinsurance Corporation of the Philippines (PHILNARE).

The CARD group distributed almost 180,000 emergency relief packages of food and medicines, with the cost shared across the institutions in the group, and CARD MBA staff and members visited members to check in. CARD MBA report that no life insurance claims were rejected, and 52% were paid within one day in cash. Claimants used the payout for rebuilding or repairing their homes, covering immediate survival needs such as medicines, daily expenses, food and appliances, and for re-investing into their businesses.

Such a solidarity-focused, member-run, volunteer and network-based structure is highly enviable, and would no doubt have extensive benefits if it could be replicated in South Australia.

While bundling microinsurance with credit like CARD does is commonplace internationally, Skees (2012) promotes as an alternative linking microinsurance with savings, though he notes there were no available examples of such a linking. In one sense, Australian super is an example of linking savings with insurance, with insurance premiums removed from the savings - though we are not recommending home, contents, or vehicle insurance ought to be able to come from people's super balance, which would exacerbate gender and socioeconomic inequities in the Australian super system.

A model of mutual microinsurance for Australia

The closest practice to CARD in Australia may be Good Shepherd's Good Money stores, where people can access free financial counselling, no interest microfinance loans (in conjunction with NAB), and the insurance products co-developed by Good Shepherd, as well as Good Shepherd operating community houses, and support services for families, people experiencing family violence, and youth. The Brotherhood of St. Laurence also provide financial education, a matched savings program, and have collaborated with ANZ to provide microfinance ("Progress Loans"), amidst a wide range of services supporting people experiencing disadvantage in Victoria. Other NGOs do similar work, such as Anglicare who provide financial counselling and no interest loan schemes within a suite of social services. There used to be some financial counsellors in South Australia's previous network of community health centres, and there still are in Victorian community health centres.

Such existing interlinked supports may be the best context within which to deliver a mutual microinsurance model in Australia. While in theory, a microinsurance organisation can be self-sustaining, some government or donor funding would likely be required to establish the program. Government funding would allow an acceptance of 'adverse selection' – that the insurance scheme would be reaching those ill served and seen as higher risk by the mainstream insurance market, and could resource a face-to-face communication model that would ensure people are fully informed about the insurance and supported with the product, such as being able to make claims, while keeping premiums and excesses as affordable as possible.

A strong theme evident in responses to consultations with people on low income in Victoria (Collins, 2011), in the UK (Whyley et al., 1998), and to some extent, in our own focus groups for this research, is that insurance "isn't for people like us" – they felt stigmatised, unwelcome, that they weren't valued customers, and that the products were not made for them. For example, one Brotherhood of St. Laurence research participant reflected: "These insurance companies have got people paying, rich people, paying money—they don't care … Why would they change for us?" (Collins, 2011, p. 35).

A purpose-designed mutual microinsurance scheme only targeting people on low incomes could be more welcoming, and dispel this stigma and sense of not belonging. Consultation is critical - Whyley et al. (1998, p. 147) note that "An Inner London Borough has achieved a higher than average level of take-up, despite a high level of poverty among tenants, through an imaginative strategy based on extensive consultation with groups of insured and uninsured households."

Good Shepherd have already collaborated to develop Essentials by AAI and Insurance 4 That in the microinsurance space, but both are stand-alone products provided by for-profit insurance companies. Like CARD-MBA, it may work best if it is more than just an insurance scheme. If microinsurance was couched within a community disaster resilience collective, for example, that involved regular face to face contact at meetings, participation opportunities, and planned for mitigation, relief, and financial security, this may be more appealing and feel more worth the time to engage in. As well as providing insurance, this broadens the possibility of improvements in mitigation, community mobilisation and capacity building in areas driven by community need and interest, and mutual help if a disaster arrives. There could be specific subgroups that share common social and financial inclusion barriers, for example in migrant communities or for people who have experienced family violence. It could mutually support and harness existing NGO networks serving people experiencing disadvantage. While such a program would require funding, the potential benefits could be far reaching.

An additional benefit of having a not-for-profit microinsurance scheme in Australia is a potential safety net for people who let their mainstream insurance lapse due to financial hardship. This concern may continue to increase if climate change and other forces keep pushing up insurance premiums, and growing income and wealth inequities continue to increase financial stress on households. Greater numbers exiting insurance may also increase premiums for those left in the pool, creating a vicious cycle. A regulation could be introduced for insurance companies to be required to contact policy holders letting their insurance lapse and referring them to the lower cost not-for-profit insurance if they are eligible.

Community consultation. While stakeholders were concerned about the size of the undertaking in establishing a not-for-profit insurer, and overcoming the discussed barriers, community members were positive about the proposal, for example:

> "Of all of them, it's probably the most meaningful in terms of doing what it sets out to do, like really insure people that need it…If the premiums are cheaper, and also like you mentioned there, easier to understand. If it can get that message across and build trust, and get enough membership, it might be gold." (Focus group participant)

> "If you want a big jump instead of taking little baby steps, if you want a big jump, is government backed insurance company that is going to support low income people." (Focus group participant)

> "If you're in business, you've got to make profit where you can make profit…And this is why you need a separate insurance company which is a not-for-profit set up, because you remove that profit." (Focus group participant)

Concerns were raised about the eligibility criteria, with participants wanting to ensure it covered people on waged low incomes as well as Centrelink payments, and one participant commenting on an income cut off: "What if you miss out by $20? I've had that before. Then that would be a bit of a problem." Participants also expressed concerns about how to fund the establishment of the scheme:

> "I don't even know how you'd get that off the ground because you'd need a lot of capital for an insurance company. You'd want someone like Bill Gates to say I'll give you X amount of dollars to start it up. But it's a good idea." (Focus group participant).

One participant who previously worked in the insurance industry felt you could establish the scheme with low overheads:

> "You could probably build a volunteer insurance company. Out there are people like myself who have worked in insurance that would be quite happy to take on an insurance agency on a not-for-profit basis. Write the polices, send them to the underwriter, and take the money. As long as the office was paid for and everything else out of what they got…Your premiums would fall to 50% of what they are now."

Recommendation:

3. <u>A not-for-profit, mutual microinsurance scheme is established</u> to cover home, contents, and vehicle insurance, with considerable government funding, and extensive community consultation. The emphasis would be on solidarity, and it would be embedded within a broader collective with multiple goals providing benefits beyond insurance, that allows community mobilisation and participation, and solely serves the needs of people experiencing disadvantage. This could be based on the CARD model from the Philippines.

Other insurance funding models

Other potential insurance funding models were canvassed in the research, drawn from international practice. These models are described briefly below, along with a rationale for why they were not pursued as a key proposal. The first four – removing stamp duty, group insurance, government reinsurance, and parametric insurance were part of the original seven proposals taken to stakeholders, and so these were discussed very briefly in the community focus groups, while the remaining four were not discussed.

Removing stamp duty from insurance

In Australia, insurance products attract GST and stamp duty. South Australia has the highest insurance stamp duty in Australia at 11% (Productivity Commission, 2014). Every government and non-government inquiry reviewed, and the 'Henry Review' of the Australian taxation system recommended abolishing stamp duty on general insurance because the stamp duty discourages uptake of insurance. Freebairn et al. argue that "Stamp duties on insurance are in effect an extra indirect tax on a specific product. There is no market failure reason, or other logical argument to justify an additional level of indirect on insurance above the general consumption tax, GST" (Freebairn et al., 2015, p. 19). It is a subject of regular lobbying by the insurance industry, who see stamp duty as making their products less affordable. SACOSS has also previously recommended investigating abolishing these stamp duties, at least for people on low income, with the caution that state revenue is vitally important to fund adequate social services (SACOSS, 2020a). The ACT government abolished stamp duty on insurance in 2016, the only state or territory government to do so to-date (Insurance Council of Australia, 2018).

The South Australian government submitted to the Productivity Commission inquiry that "South Australian taxes and levies on general insurance is a significant source of revenue. The draft report does not describe any alternative, less distortionary taxes that would make up the loss in revenue" (Productivity Commission, 2014, p. 215). The ACCC inquiry noted the Insurance Council of Australia's recommendation to replace stamp duties on insurance with an increase in municipal land taxes such as council rates. This is the approach taken by the ACT government. The ACT government has reported that the change had not resulted in a large loss in revenue:

> "The tax changes made so far, which included dropping a 10% duty applied to general insurance premiums and 5% duty on life insurance, only sliced $62 million -- or around $9 million a year -- from revenue, which still came in at $4.806 billion. So far, an increase in general rates of $793 million over the period compares with revenue forgone from stamp duty and insurance duty of $855 million" (https://www.insurancenews.com.au/regulatory-government/act-says-scrapping-insurance-tax-left-no-budget-hole)

State land taxes may be the most direct way of recouping revenue if stamp duty was removed from insurance, and land taxes are generally efficient and progressive. The Grattan Institute advocates for increasing property tax, even though it may be slightly less efficient than land tax, using council rates as a base, similar to the Emergency Services Levy.

However, the South Australian government has recently legislated to reduce land tax on the highest bracket (albeit while closing a loophole that will allow a net increase in revenue). This may make it very difficult to advocate for an increase in land or property tax rates.

A major concern with removing stamp duty is that removing stamp duty may be detrimental to equity more generally, because it would disproportionately benefit wealthier people. People with less wealth are less likely to have insurance, and are likely to have cheaper insurance premiums because their insured assets are less, and therefore they would pay less stamp duty than people with greater wealth. Internal analysis by SACOSS (Dr Greg Ogle) using the most recent ABS 2015-16 Household Expenditure Survey revealed that wealthy households pay a greater absolute amount in stamp duty, and a greater proportion of their household expenditure on insurance stamp duty than less wealthy households. Table 1 shows this pattern for home and contents insurance, and the pattern for vehicle insurance is similar. Hence, removing stamp duty on insurance, while it may make a small contribution to affordability of insurance, overall, will have a detrimental effect on social equity.

Table 1.

House and Contents Insurance Expenditure, and Stamp Duty Paid on that Insurance, by Household Net Worth Quintile, Australia 2019

	Average weekly home & contents insurance spend	Average weekly stamp duty	% share of total stamp duty	Insurance as % of mean h/hold expenditure	Stamp duty as % of mean h/hold expenditure
Lowest net worth quintile	$2.37	$0.26	3%	0.25%	0.03%
Second net worth quintile	$11.82	$1.30	14%	0.89%	0.10%
Third net worth quintile	$18.41	$2.03	22%	1.44%	0.16%
Fourth net worth quintile	$22.28	$2.45	27%	1.50%	0.16%
Highest net worth quintile	$28.79	$3.17	34%	1.38%	0.15%

Another concern with removing the stamp duty from insurance is whether insurance companies will faithfully pass on the price reduction to consumers. The Australian Securities and Investments Commission has recently investigated an insurance company for not passing on its own advertised discounts to consumers, worth $60m over 5 years. Thus, it may require the establishment of an empowered price monitor to ensure savings are passed on to customers.

If stamp duty were removed, the best model for a price monitor to follow may be the Victorian Fire Services Levy Monitor. This agency was established to monitor whether insurers passed on the savings after the Fire Services Levy was abolished on insurance products in July 2013. Given the individual pricing of general insurance premiums, and the lack of transparency of how these premiums are calculated, there was concern about how to monitor whether the savings were passed on to consumers. Through legislation (the Fire Services Levy Monitor Act) the Monitor was granted the power to require people to produce documents, appear before the Monitor, and provide information relating to the setting of premiums and compliance (Fire Services Levy Monitor, 2014). This allowed the Monitor to issue formal notices to insurance companies to request information on premium pricing, and conduct formal examination of insurance company executives (Fire Services Levy Monitor, 2014). The Monitor found that 56 insurance companies and brokers had over-collected $12.4m following the abolition of the levy (Financial Rights Legal Centre, 2016).

New South Wales similarly established the Emergency Services Levy Insurance Monitor to prevent insurance companies overcharging policyholders for the levy. Before it was closed down in 2020, the Monitor found $14.7m was over-collected by insurance companies. For the Australian Competition and Consumer Commission inquiry into insurance in Northern Australia (Australian Competition and Consumer Commission, 2020), they were also able to compel information from insurance companies through the Competition and Consumer Act 2010. This allowed them to gain information on how premium prices are set in home and contents insurance.

Community consultation. Views on removing stamp duty in the focus groups were mixed. While some participants felt "that would be fantastic to remove it", and would make a difference for some people, including pensioners, others felt that it was "Not going to do much for very many people."

One focus group participant raised the conflict stamp duty created for any government wanting to address insurance affordability, because as insurance premiums have risen "the stamp duty and everything that goes along with it is increased as well. The government reaps a hell of a crop… the government is not going to rock the boat." Removing stamp duty and replacing it with alternative revenue would have the additional benefit of removing this perverse incentive to not act on insurance affordability.

There was widespread concern about the loss of revenue to the state government, reflecting participants' acknowledgment that they relied on government services for their quality of life:

> "And they're taking that 10% away from the government which are using it in other areas for services that we need … roadworks, or police department. 1500 new COVID workers." (Focus group participant).

> "If we want to keep our quality of living, we can't keep taking money away from our government, to provide for this level of living that we live in this country. So we gotta pay somewhere." (Focus group participant)

When the suggestion was made to replace the lost revenue with increased property or land tax, there was general belief that it would mean people would end up paying through increased rent or other avenues, removing the benefits of lowering their insurance premiums: "Government - you take it away, they've got to find somewhere else to get it from. So in the long run you're going to pay. Eventually." (Focus group participant).

Group insurance policies

Group insurance was explored because it has a number of theorised benefits:

- Group policies can reduce administration and transaction costs, lowering cost of premiums
- Adverse selection (of too many high risk policy holders) is reduced
- Moral hazard (e.g. fraudulent claims, not doing enough to protect assets) is reduced through group social ties
- Within the group, insurance access becomes universal (Yan & Faure, 2021).

Group policies are popular in China, such as a group product from the Jinzhong Branch of the China Life Insurance Company, where a village committee signs up the whole village to a group insurance scheme (Bester et al., 2018; Yan & Faure, 2021). However, this scheme has suffered criticisms of product offerings and low renewal rates (Bester et al., 2018).

In Australia, consideration of group insurance appears to be confined to life insurance, typically through large organisations. Whether group insurance would be a potential model for communities that may have a more communal approach to property, which may include some small rural communities, Aboriginal communities, or residential parks, may be worth exploring. Aboriginal Community Controlled Organisations may be one avenue for managing such a scheme for Aboriginal communities, to ensure the policy is a good product, and that there is trust in the scheme. Such group policies might improve access through greater attempts at universal coverage (for a specified community). It may provide options for low income members of the group to be subsidised by other members.

However, a number of challenges were raised by stakeholders. Considerable education and dissemination of information would be required to ensure community members knew about the insurance, and were able to make claims when needed. One stakeholder noted that under current regulation, group insurance was not covered by unfair contract terms regulations, unlike individual insurance.

Another major challenge to group polices is that it may also be very difficult to negotiate the terms of the insurance policy, such as inclusions, exclusions, the amount of the excess, how to collect premiums, and other considerations, in a way that made the policy acceptable and valuable to all members of the group. If this was achieved by one community, this may be able to serve as an adaptable blueprint for other communities. 'Bought By Many' is a UK service that acts as a broker, approaching insurance companies on behalf of an underserved group (such as diabetic travellers or homeowners in flood risks areas), and negotiating a suitable insurance product that serves the needs of that group, for which Bought By Many receives a broker fee from the insurer. It may be that such an intermediary may support the potential of group policies, but this would come at a cost of the broker fee to the policy holders directly or indirectly, unless this role was funded by government.

Community consultation. In the focus groups, participants weren't opposed to group policies: "Why not? If it was offered.", "Yes, I can see it working, but it would be very hard to do." Some people thought they might work for some groups, such as groups of tenants in the same building. Participants were unsure how a group policy could navigate people having different contents values to insure.

While not a group policy, the South Australian Residential Parks Residents Association managed to negotiate a deal with an insurance company for home and contents insurance for their members, who typically struggled to find insurers willing to insure them. The residents would pay their premiums direct to the insurer, and the participant noted that there would be no way for them to afford a group premium up front, and that it would then be very difficult to collect each member's share of the premium, making a true group policy unviable.

Government reinsurance

Reinsurance is the insurance that insurance companies take out to diffuse risk. Insurance companies accept risk by agreeing to insure people, households, businesses, and assets, and then take out reinsurance to guard themselves against major pay outs. For example, IAG has purchased $7b of reinsurance, so that following a natural disaster, IAG pays the first $200m of payouts, and the remainder is covered by reinsurance (Robinson, 2017b).[1]

The insurance company pays for this reinsurance, then passes the cost on to customers. Approximately 30% of the technical price of general insurance premiums are to cover the cost of reinsurance (Australian Competition and Consumer Commission, 2020; Robinson, 2017b). Reinsurance is often purchased from the global market, to spread natural disaster risk globally. Since climate change will increase natural disasters globally, reinsurance will only become increasingly expensive (Tesselaar et al., 2020). The increasing costs of national disasters has already increased the cost of reinsurance (Robinson, 2017b).

One very frequent strategy internationally to improve access to natural disaster insurance is for governments to step in and provide reinsurance. This reduces the cost of reinsurance to insurance companies, who can therefore offer lower premiums. Government reinsurance is cheaper because the government forgoes a commercial profit margin on selling the reinsurance, and it backs the reinsurance with a government guarantee, placing less liquidity requirements on the reinsurance pool (Treasury, 2021). Additionally, without government reinsurance the private insurance industry can simply choose not to provide cover for specific perils, such as flood, if the risk exceeds the potential for profits.

An international example of government reinsurance for natural disasters is France. France have mandated natural disaster coverage in insurance, with regulated set premium rates regardless of natural disaster risk (McAneney et al., 2016). To support this, the government established Caisse Centralede Réassurance, a government reinsurance scheme that is offered as a cheaper alternative to commercial reinsurers.

Government reinsurance can cover one peril (e.g. the USA's National Flood Insurance Program and the UK's Flood Re cover just flood risk), or can be multiperil (e.g. France's Caisse Centralede Réassurance). Government reinsurance can be introduced to help reduce unaffordable premiums in areas where the risk of natural disaster is too high for the private insurance market to want to cover the peril, or where insurance premiums are hugely increased to allow the private insurer to cover the peril. It does not target people on low incomes specifically.

As outlined under the 'Government inquiries and intervention in the insurance industry' section in the introduction, the federal Government has a reinsurance pool to address terrorism insurance and is establishing a reinsurance scheme for cyclone and flood insurance in Northern Australia. This provides an avenue to advocate to expand the reinsurance to support natural disaster insurance more generally, as Financial Legal Rights Centre have already done.

Inquiries have argued that a broad reinsurance scheme for natural disasters may not be ideal. The positive would be that such a scheme would lower insurance premiums for everybody in areas at high risk of the covered peril(s) – e.g. all people living in Northern

[1] This is one model of reinsurance, there are other models, such as proportional reinsurance, where the proportion of payouts to be met by the reinsurance is agreed to.

Australia in areas at risk of cyclones. This would benefit people on low incomes living in these areas, as people on low incomes will be the first to be excluded as premiums increase. Helping affordability of premiums in areas at high risk of natural disasters may also differentially advantage people on low incomes, because as noted earlier, people on low incomes are more likely to live in high risk areas, where rents or housing prices may be lower (de Vet et al., 2019; Robinson, 2017b).

Despite this, reinsurance is not a targeted strategy for tackling broader affordability of insurance premiums for people on low incomes. The reduction in premiums that could be achieved through cheaper government reinsurance in a broad, comprehensive scheme has been calculated to be fairly minimal (Australian Competition and Consumer Commission, 2020). Furthermore, government reinsurance for private insurers is a striking example of privatising the profits while socialising the losses – insurance companies remain free to profit from selling insurance, while the governments, and therefore taxpayers, hold the risks of large-scale payouts. With increasing natural disaster costs, this risk can be extremely high, and many countries have had to bail out their reinsurance schemes (McAneney et al., 2016). As of 2013, the United States' National Flood Insurance Program had accrued losses of $24b (Kousky & Kunreuther, 2014).

The Northern Australian Insurance Inquiry report delivered in December 2020 rejected government reinsurance as the best strategy for similar reasons:

> "We do not consider government reinsurance pools or government insurers are well-suited to address affordability concerns in a targeted way…These measures cannot be targeted to consumers most in need, and would transfer significant risks from insurers and reinsurers to governments." (Australian Competition and Consumer Commission, 2020, p. xvi).

The report noted that the majority of insurers' submissions did not support government reinsurance either. The subsequent Senate Select Committee on the Northern Australia agenda (Commonwealth of Australia, 2021), while it received submissions for and against reinsurance, recommended that the ACCCC inquiry recommendations should be implemented in its April 2021 report. It is unclear, therefore, why government reinsurance was announced as the instrument of choice on 4th May 2021.

One potential exception to a recommendation against government reinsurance would be to provide government reinsurance specifically for not-for-profit microinsurance options. That is, if a not-for-profit microinsurance organisation was established, this would benefit from being served by cheaper government reinsurance compared to needing to seek commercial reinsurance. Thus, if proposal #4 to establish a not-for-profit mutual microinsurance organisation is pursued, the benefit would be even greater if government provided the reinsurance for the scheme. This could be delivered through the existing government reinsurance processes established for terrorism and Northern Australian reinsurance.

Community consultation. Participants in focus groups were in agreement about government reinsurance not being a key goal to advocate for, although some indicated they thought "It's a good idea", particularly for the proposed not-for-profit provider (proposal 4): "Under a non-profit one, that would be good." There was concern about ensuring the for-profit industry did the right thing by the government reinsurance: “Would the government have to regulate the industry to make it answerable to other people? They’re answerable to themselves only at the moment, I think, they set their fees and everything, don’t they?”

Parametric insurance for immediate disaster responses

In traditional insurance, a policyholder insures against a particular loss, and then makes a claim if that loss occurs. There are drawbacks to this model, including the considerable overheads involved in verifying claims, a long lead time to paying out on claims, and a perceived risk that insured people won’t take appropriate risk mitigation action if they feel they are well insured against loss (X. Lin & Kwon, 2020). A recent innovation in insurance is parametric insurance, also known as index insurance. This type of insurance is particularly relevant to natural disasters. In parametric insurance, a particular weather indicator (a ‘parameter’, or ‘index’) is the trigger for a predetermined payout amount, rather than a loss that needs to be verified and costed. This lowers insurance costs and leads to fast claim payouts (X. Lin & Kwon, 2020).

Parametric insurance was pioneered in crop insurance for farmers in low income countries (X. Lin & Kwon, 2020; Skees, 2008). An example is a 2006 drought parametric insurance scheme in Ethiopia. If there was drought (using a parameter of minimum rain in a given area), the reinsurance company would transfer funds to the United Nations, which would provide the funds to Ethiopia to be distributed to farms in the form of cash assistance (Lobo-Guerrero, 2010). Insuring against loss due to drought directly was seen as not possible because of the catastrophic nature of droughts, and the difficult to define nature of ‘drought’ (Lobo-Guerrero, 2010). Insuring against a measurable, objective trigger of drought (low rainfall) solved these problems. Similar parametric insurance is used in India, Malawi, Mexico, Peru, and Mongolia to provide protection for low income farmers for their crops or livestock, typically against drought, severe winters, or extreme rainfall or windstorms, and these often involve an international donor (Skees, 2008). The Caribbean Catastrophe Risk Insurance Facility is another example of parametric insurance, where 21 countries have collaborated to parametrically insure against hurricanes and earthquakes (Grove, 2010; X. Lin & Kwon, 2020; Sawada & Takasaki, 2017). In Australia, CelsiusPro offer weather derivatives, and YieldShield offers yield index insurance to farmers (Hatt et al., 2012). A recent parametric insurance product has recently been launched in Northern Australia for tropical cyclones – Redicova. The product is available for individuals and businesses, and the parameter that triggers a payout is being located within a ‘very destructive wind zone’ based on cyclone track maps and Bureau of Meteorology data.

Parametric insurance’s promptness of payouts is particularly valuable for people on low income, to prevent them falling deeper into a poverty cycle (e.g. by needing to sell productive assets, or go into debt) while they wait for payouts (X. Lin & Kwon, 2020). It also holds promise in helping people prepare for natural disasters. Triggers can be linked to the forecast of a natural disaster, allowing funds to be released before the natural disaster actually hits (Skees, 2012). These were the principle behind the 2019-2020 pilot of the Oxfam donor led and funded B-Ready program in the Philippines. Households in the Eastern Samar region who had been identified as most at risk were provided with a card that could be automatically loaded with funds when a typhoon approaches. Partner Global Parametrics provided modelling of weather data to predict imminent typhoons, which would trigger the cash transfer that would allow households to buy extra food or medicine, strengthen their houses, or evacuate. B-Ready assisted almost 2,000 families to prepare for Typhoon Ursula in 2020 and Typhoon Aurung in 2021.

Responsibility for natural disaster recovery and risk management largely falls to the state and territory government (Productivity Commission, 2014). State, territory, and local governments are already insuring government assets against natural disasters and needing to fund counter disaster operations (Productivity Commission, 2014). It could be advocated for current insurance arrangements to be extended to include such a parametric insurance option. “Emergency assistance to households and ongoing support for low income earners who have experienced significant losses” is already a cost that is shared between state and federal governments (Productivity Commission, 2014) and the cost of parametric insurance may therefore be offset through lowered costs during disaster recovery. Parametric insurance may also appeal to some local governments, particularly those who have experienced severe natural disasters in the past.

There is precedence for government parametric insurance that covers people on low income in Mexico, where the government has established two disaster relief funds (Skees, 2008). Fondo de Desastres Naturales provides relief funds for low income victims of disasters as well as public infrastructure, while the FAPRACC fund provides assistance for drought, frost, hail, excess rainfall, flood, and windstorm to subsistence farmers who don’t have access to insurance. The state government could purchase parametric insurance that triggers payments (e.g. based on Country Fire Service alerts) to support people’s costs in evacuating, temporary accommodation costs, and provide reimbursement for lost income for anyone who needs this support. It could also cover immediate firefighting and disaster recovery measures, but if firefighting services are the beneficiary as well as the decision-making body around the alerts this may be a conflict of interest.

However, parametric insurance has some drawbacks:

- a parameter only applies to one peril, and so many parameter insurance schemes cover only a single peril (Skees, 2012). Multiple parameters need to be developed and combined into multi-peril cover.
- reliance on a parameter introduces greater inaccuracy. Because a weather parameter is a trigger, rather than loss, there can be weather-related losses when the trigger parameter isn’t met. This is known as negative basis risk (X. Lin & Kwon, 2020). For example, the further a farm is from the weather station where the parameter is measured, the greater the basis risk where the farmer may experience losses due to local weather, but where the payout trigger is not met (Platteau et al., 2017).
- the reliance on parameters also mean parametric insurance is context-dependent, and this makes it harder to scale up and replicate (Skees, 2012).
- because of the more complicated nature of parametric insurance, greater consumer education is required to aid understanding of the product, and this is one of the reasons why demand for parametric insurance has often been low (Skees, 2012).

- while parametric insurance was designed specifically to help protect low income farmers and ameliorate their poverty, Skees (2012) notes that "the hypothesized benefits to poor households have thus far proven elusive" (p. 14).

Examples of parametric insurance could be found for earthquakes, floods, tsunamis, typhoons, hurricanes, drought, volcanic eruptions, and severe winters, frost, and rainfall. Examples of parametric insurance for wildfires (a critical natural disaster threat for South Australia) are more limited (Willis Towers Watson & The Nature Conservancy, 2021), and fires were not included on GlobalAgRisk's list of 'core addressable disaster risks' for parametric insurance (Skees, 2012). There is a parametric insurance product in Australia for bushfires available for forestry companies, where they use before and after satellite imagery and pay a set amount per acre burned. Whelan and Brook have proposed parametric insurance for Californian wildfires that could be linked to a government evacuation warning, and allow immediate payouts to policy holders to support the immediate costs of evacuation and replace lost income in the short term (rather than being a replacement for home, contents, and vehicle insurance). While such an insurance may be beneficial for most of the Australian population, it would be particularly valuable for people on low incomes who may not otherwise have the savings to weather this financial shock. Pui suggests that parametric insurance for Australian bushfires could also help release funding for firefighting efforts. However, parametric insurance products remain a far less explored insurance option for bushfires, making it more difficult to confidently recommend. We would encourage that this space be monitored and considered if the use of parametric insurance continues to expand and its evidence base continues to build.

Community consultation. Focus group participants were very positive about the potential benefits of government purchased parametric insurance – that it would help areas of socioeconomic disadvantage that experience natural disasters (Virginia, north of Adelaide, was provided as an example, which suffered considerable damage, especially to crops, in the recent hailstorms). One participant discussed the potential benefit to the distribution of aid:

> "It's a good idea. That's a bit like – the Salvation Army steps in as soon as there's a crisis. They've got the food and everything. Shouldn't the government be doing the same thing? We shouldn't have to watch our news and see people living on the street or in their car. It's terrible, it's depressing, when we're paying taxes…It's disgusting. It makes you feel really more vulnerable." (Focus group participant).

The speed of pay out was appealing, with one participant noting that some people who had property damage in the last bushfires were still waiting to get their insurance payouts (almost a year later).

Insurtech

There has been considerable interest internationally in the disruptive potential of 'insurtech' – innovative insurance products delivered on digital platforms (L. Lin & Chen, 2020). An example is Pineapple, a South African service that lets people insure individual items through a smartphone app. One of the appeals of insurtech for people on low income is that the reliance on digital technology can heavily reduce insurance company overheads, facilitating the provision of more affordable insurance products (Churchill & Matul, 2012).

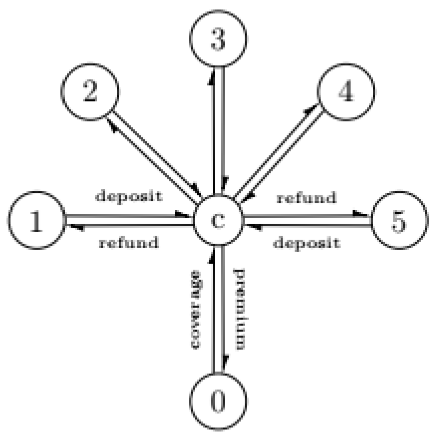
However, any product that requires the use of digital technology will exclude a proportion of people living on low incomes. SACOSS research has found that 39% of people receiving Centrelink payments and 13% of waged poor households do not have a smartphone (Ogle & Law, 2020). Mobile data and broadband connections can be expensive, and half of waged poor households struggled to pay telecommunication bills, and had to cut back on or stopped using telecommunication services for financial reasons in the past year (Ogle & Law, 2020). For this reason, insurtech may not be the most appropriate avenue to seek to solve affordability issues for people on low income in South Australia. This was reiterated in the focus group consultations with community members, many of whom felt digitally excluded, for example:

> "So much of it is done online at the moment. What about people like me? I'm not internet savvy. Not at all. I don't know what I'm doing on the internet whatsoever. I'm old school. Give me a pen and paper any day. They make it so hard."

Peer to Peer Insurance

Decentralised peer to peer platforms, typically heavily digital tech-dependent, have transformed a number of industries, with high profile examples including Uber and AirBnB. Peer to peer insurance models have recently come on the market, with the first being Friendsurance in Germany in 2010. The basic model of peer to peer insurance is shown in Figure 4 below (from Abdikerimova & Feng, 2019).

Figure 4. The basic peer to peer insurance model, reproduced from Abdikerimova and Feng (2019).



The nodes 1-5 are five 'peers' – who may be family or friends, who contribute funds to a shared pool (the 'c' node). Some of these funds are used to purchase a group insurance premium from an insurer (node zero). If a member of the group has a small claim, the funds are taken from the shared pool. For claims too large to be covered by the shared pool, the group make a claim from the insurer, and the excess can be paid out of the shared pool. Friendsurance in Germany provides third-party liability, household, and car insurance in this manner, acting essentially as a broker, and taking a flat fee for managing each shared pool group. The touted benefits of peer to peer insurance, like peer to peer in other industries, is lower overheads and administrative costs compared to centralised models, making the products lower cost to consumers.

US home and contents insurance company Lemonade is much touted as a peer to peer revolution in insurance. However, several commentators (e.g. Stephen Palley and Hadas Tayeb) have pointed out that it is a stretch to label Lemonade as peer to peer insurance. Rather it is a low cost insurtech product from which Lemonade makes its profits from a flat fee instead of unclaimed premium money. This reduces the typical conflict of interest with insurance that insurance companies are disincentivised to pay out on claims. Lemonade allows policy holders to nominate a charity to which unclaimed premium money is donated. As noted in the previous section on Insurtech (p. 13), models like Lemonade are heavily dependent on digital technology, particularly smartphone apps, meaning they risk exacerbating inequities caused by digital exclusion if they are relied upon to facilitate access to insurance for people on low incomes.

Peer to peer insurance is relatively new, and there are many startups that have failed and closed down, including Guevara in the UK and PeerCover in New Zealand. Friendsurance has tried to enter the Australian market with a peer to peer bicycle insurance product, which appears to have not lasted very long, and is no longer available. Our very strict regulatory requirements are likely to be a considerable barrier that prohibits peer to peer insurance models in Australia. Huddle raised money to develop peer to peer banking, including insurance, for Australia, but ended up providing standard insurance products, suggesting that peer to peer insurance may not be feasible in Australia. In addition, peer to peer models may not be suited to large exposures (Swiss Re, 2016) – most peer to peer products have focused on small risks such as gadget, bicycle, and car insurance, and thus may not offer much promise in safeguarding people against catastrophic loss from natural disasters.

Mutual aid

China has witnessed a rise in mutual aid providers that are called “insurance-like”. Participants join a risk sharing pool, and receive a payout if they have an eligible claim. Payouts are typically capped to ensure solvency. One of the largest mutual microinsurers in the world is health mutual aid scheme Xiang Hu Bao in China. Launched in 2018, it has approximately 100 million members. If participants require medical support for one of the 100 covered illnesses, they will be provided with a one-time payout, the cost of which is borne by all the other participants in the risk sharing pool. Hence, instead of requiring up front set premiums, participants pay twice-monthly premiums adjusted to cover payouts (a fraction of the cost of traditional insurance premiums). This reversed model is a key difference from the traditional insurance model, where premiums are paid in advance. Seeking cost recovery rather than building funds in advance arguably gives the scheme a charity and mutual aid focus as well as individuals seeking to insure themselves, as participants feel they are directly covering the cost of people’s health care. For example, one journalist wrote:

> “*Nineteen days after joining Xiang Hu Bao, Ant Financial’s online mutual-aid network, your correspondent had contributed to financing medical support for*

nine people fighting disease. The cost she bore was only Rmb 0.05 (US$0.007) for all nine policies, with no fee to sign up." (DigFin)

The product is part of a for-profit company (Ant Group, an affiliate of Alibaba Group) and the company takes an 8% management fee from the pool.

However, there are considerable negatives - Xiang Hu Bao refuses applicants who are 60 or over, to exclude high risk age groups, placing limits around any claims of solidarity, and it does not appear to be designed to cope with covariant risks. Xiang Hu Bao doesn't seem to hold any reinsurance, but rather shares the cost of claims out in future premiums. This means that if the model were applied to natural disaster insurance, you would expect the claims to exhaust the reserve pools very quickly following a natural disaster, meaning the fund may not be able to pay out (which they're not legally required to do because they don't fall under insurance regulations), and then subsequent premiums for all members would sky rocket. Xiang Hu Bao did cover COVID-19 (which would have been covariant – affecting lots of members at once), but at the expense of Ant Financial, rather than through standard practice. The uncertainty of the amount to expect in twice monthly payments may also make budgeting more difficult for people on low incomes, though total annual payments are capped – for 2020 the cap was 188 yuan - "about the cost of two KFC bucket meals".

In Ethiopia and Tanzania, informal community insurance groups ('iddir' in Ethiopia) provide insurance-like mutual aid where participants pay a regular premium in order to receive benefits (funds, food, access to communal equipment, donated labour) when a family member dies (Aredo, 1993; Weerdt et al., 2007). A sizable minority also provide some insurance against home destruction or fire. Inclusivity of the groups are very high, with over 95% of villagers in one study being a member of at least one such group (Weerdt et al., 2007). Similar to CARD MBA, the schemes are predicated on close community ties, regular meetings, and a strong sense of mutual aid that goes beyond a financial transaction. Being informal mutual aid, with no reinsurance, these groups are vulnerable to covariant risks. As an example of covariant risk, Weerdt et al. (2007) studied these groups' responses to the incursion of the HIV/AIDS epidemic into their geographic area, and found that groups needed to raise premiums, threatening the financial inclusivity of the groups, or negotiate reduced payouts as deaths increased. Thus, mutual aid groups may be too ill suited to covariant natural disaster risks to be viable to recommend.

Pay as You Drive Car Insurance

The only affordability innovation in vehicle insurance (outside of vehicle insurance in Essentials by AAI) that has been popularised is Pay As You Drive insurance (there is also the more controversial and less successful 'Pay *How* You Drive' model that bases premiums off a number of safety-related driving metrics collected through special telemetric devices). These usage-based products for car insurance are argued to increase affordability and to decrease car usage and car accidents (Bordoff & Noel, 2008).

However, such a product would only be good for equity if low income drivers drove fewer kilometres than other drivers, and if non-metropolitan drivers did not drive more kilometres than urban drivers. There appears to be no good data on the former. To examine the latter, the total kilometres driven by passenger vehicles was retrieved for a) Adelaide and b) South

Australia outside of Adelaide from the most recent ABS Survey of Motor Vehicle Use. These were divided by the population of Greater Adelaide and the population of the rest of South Australia respectively (from Population | PlanSA). This produced an annual kilometres per person of 6054kpp for Adelaide, and 8034kpp for outside of Adelaide, suggesting that regional, rural, and remote drivers would drive more kilometres on average than metropolitan drivers. Car insurance for natural disasters is probably most pertinent for non-metropolitan drivers, due to their higher risk of experiencing distress and isolation from the loss of a vehicle from a natural disaster.

Instead, access to comprehensive car insurance may be best met through the broad affordability proposals, and through the existing microinsurance product Essentials by AAI. This product provides car insurance targeting people on low incomes, developed in collaboration with Good Shepherd Australia New Zealand. This product provides accident loss or damage coverage of either $3,000 or $5,000.

Community consultation. Pay as you drive insurance was raised in one community focus group, where they felt it would benefit pensioners who drove few kilometres. One participant wished this extended to Compulsory Third Party insurance: "Compulsory Third Party should be done on a levy of 3 or 4c a litre on fuel … That older man out there having to dip into his pocket for his old commodore, $894 - $500-and-something of it which is CTP, in one lump sum, where he might do 5,000 kilometres a year." Conversely, a participant in another focus group suggested that the option for Third Property Fire and Theft could be added to the registration: "With the rego, it would be really nice just to have included in the registration, the third party property fire and theft. If they added something into that for people who won't put the money aside, it's in the registration, it's included."

Funding the proposals

While not a direct focus of this project, there are four funding streams we can propose to cover the cost for providing these solutions:

1. Even though this project rejected removing stamp duty as a proposal, industry modelling suggests that stamp duty could be replaced with taxes that could be revenue *positive* (Insurance Council of Australia, 2018). Property taxes could be increased such as to cover the removal of stamp duties on insurance, plus fund solutions to maximise access to insurance for people on low income.
2. The biggest insurance companies (Suncorp, Allianz, IAG, QBE[2], RACQ, and Youi) paid a total of $730m in tax in 2018-2019 (from ATO '2018-19 Report of Entity Tax Information'). It seems fair to argue that if insurance is critical to disaster resilience, as government policy asserts, then a portion of government taxes received from sourcing this function from the private sector ought to be used to improve access to insurance for people who otherwise couldn't afford insurance from the private sector.

[2] QBE income tax drawn from 2017-2108, as QBE could not be found in the more recent 2018-2019 dataset.

3. As noted in the section on direct subsidies, in Australia rebates are provided for private health insurance. This costs the Australian government approximately $6billion per year, for dubious benefit (Duckett et al., 2019). Modelling in 2013 showed that reducing private health insurance subsidies by 10% would generate net savings of $215m per year, taking into account a modelled increase in public health service utilisation. Poverty is a major social determinant of health (Commission on Social Determinants of Health, 2008), and if general insurance can play a role in preventing people from falling into poverty, then it may be a better investment than private health insurance subsidies.
4. One stakeholder proposed an alternative funding model for the proposals – that a tariff could be imposed on all insurers operating in Australia, that would form a central pool to fund these proposals, for example, in order to set up a not-for-profit microinsurer.

The first option provides state revenue, while the last three would provide national revenue.

Options to promote access to insurance

As well as insurance funding models, this research had the secondary aim of understanding options for promoting access to insurance. The community focus groups provided information on how people find out about insurance, and raised other considerations: the affordability benefits of spreading out the cost of premiums, and insurance for residential park residents and people in marginal housing.

How people find out about insurance

Community members in the focus groups cited a range of different ways they sought out information about insurance:

- From online websites such as Compare the Market, or web searching different companies and getting quotes
- An insurance broker, through their financial institution
- Financial counsellors, e.g. the Good Money store
- One participant mentioned that Essentials by AAI was listed on the Salvation Army's Affordable SA smartphone app.

While some participants were happy investigating insurance online, a number of others felt unable to access online information about insurance, as discussed under the Insurtech section above. This digital exclusion meant some people shopped around in person for insurance deals. A number of participants reported that they had just stayed with their current insurer for in some cases, 20 years or more. One participant warned not to trust the comparison websites: "they weren't actually giving you the best comparable price, and they got caught out and they got fined for it."

Apart from the Good Money stores, no participant reported receiving help around insurance from NGOs. Participants suggested that NGOs such as Anglicare, the Salvation Army, and the St. Vincent de Paul Society could play a role in spreading information about affordable insurance, such as through having leaflets that customers could pick up. Councils and community groups were other suggested avenues.

One participant presented a booklet they had purchased, which stepped through how to document and cost contents for the purpose of contents insurance. They reported that it had been helpful in feeling secure in their contents insurance, but was a large amount of work. Good Shepherd have also designed booklets to provide basic information about insurance, particularly contents insurance, but these or other resources were not raised by participants in the consultations.

Some participants expressed a high value placed on insurance, for example:

> "The anxiety goes away a little bit…Once I started listing how much it would cost to replace the television, the washing machine, the refrigerator, I thought 'Oh, thank god I've got insurance.' And it gives you peace of mind."

Other participants did not see value in insurance, and this stemmed from the very low trust in insurers evident across the focus groups, specifically, the very low trust that insurance companies would pay out claims. Many participants told stories of past claims, of their own or family or friends, that were rejected or viewed to be underpaid. Common sentiments were: "what's the point of insurance if you're not going to be covered for anything?", "People at the insurance ripped us blind", and "if there's any way for them to wriggle out of it, they will."

Participants reported finding not understanding policies and product disclosure statements a barrier, that "they're a nightmare" and you "really need to be a lawyer to understand them." One participant felt this was a widespread barrier to take up: "If you don't understand it, you steer away from it." These trust and understanding barriers confirm previous research on this topic.

Spreading out the cost of the premium

Regardless of the uptake of many of these proposals, affordability of insurance can still be tied to the problem of requiring an annual, or monthly lump sum payment that can make it difficult for people on low incomes to budget for. Being able to spread premium payments out fortnightly would greatly benefit access to insurance for people on low incomes. This was reiterated by stakeholders and community members. Many participants in the community focus groups expressed inability to obtain funds for big lump sum payments, for premiums or excesses. However, currently fortnightly payment options for premiums are rare, with Essentials by AII, CGU, and WFI being exceptions (Australian Competition and Consumer Commission, 2020). ACCC report that over 70% of Essentials customers pay fortnightly, demonstrating the appeal for people on low incomes.

For people receiving financial support through Centrelink, the system Centrepay allows authorised direct debits to be taken out of their fortnightly payments before their money is deposited in their banking accounts. This has been hailed as effective for people's budgeting, and to avoid payment defaults (Australian Competition and Consumer Commission, 2020). Participants in the focus groups used this for electricity, water, and rent, and some for the Essentials insurance product, and all reiterated the value of this option:

> "Once you start doing it, at first you notice it, but once you've been doing it for a few months, you don't notice not having that money."

Two focus group participants observed that they were on Veterans Affairs payments, which while delivered through Centrelink, are handled differently and Centrepay was not available to them.

ACCC recommended that insurers ought to provide the option to pay in fortnightly instalments, in particular that insurers should be mandated to offer Centrepay. However, they raised a range of barriers to this provision from the point of view of insurers. There are two considerable barriers in particular to fortnightly payments as an affordability aid. The first is that insurers may charge an extra cost to customers who choose this option – a clear case of a poverty premium for those least able to afford it. The extent of this additional cost can be very high:

> "In the case of one large underwriter's online quote, if the offered monthly instalment payments were translated to a loan for the up-front annual premium being paid off over a 12 month period, the effective annual interest rate on that loan would more than 33 per cent" (Fire Services Levy Monitor, 2014, p. 21)

This is not just driven by extra transaction and administration costs, but also arises because some insurers deem people who pay fortnightly as a higher risk to insure, and consequently charge them a greater premium (Australian Competition and Consumer Commission, 2020). If a Price Monitor is established, as per the previous recommendation, then its role could include fostering fortnightly payment options and ensuring these incur minimal poverty premiums.

The second major barrier is the potential of increased risk of arrears if people are paying fortnightly. While Centrepay is designed to avoid this situation, and has been found to reduce customer arrears (Australian Competition and Consumer Commission, 2020), if people cancel their Centrepay insurance payment, or have chosen to pay fortnightly outside of Centrepay and can't make a payment, at some point the insurer will cancel their cover. In the current Code of Practice (Insurance Council of Australia, 2020), there are hardship allowances for people who cannot afford an excess, but the Code "does not include support with paying the premiums under an insurance policy we have issued" (Insurance Council of Australia, 2020, p. 34).

There are few legislative or regulative protections for people who miss insurance premium payments, as the Insurance Contracts Act gives the insurer the right to cancel an insurance contract on non-payment of an instalment (Australian Competition and Consumer Commission, 2020). While the ACCC (2020) report that in practice, insurers will issue multiple reminders and a final notice to pay outstanding premiums before cancelling the insurance contract, to encourage trust in insurers amongst people paying fortnightly premiums, it seems critical to establish some level of regulatory protection around non-payment that is clear to both customers and insurers.

Recommendation:

4. Insurers should be required to provide fortnightly payment at no extra cost, and the option for Centrepay. The pursuit of any of the proposals presented here should emphasise the importance to affordability of fortnightly payment options and Centrepay.

Insurance for residential park residents and people who are marginally housed

The barriers experienced by residential park residents in accessing building insurance for relocatable homes is discussed earlier, under the concessions proposal (pp.24-25). These difficulties suggest there would be benefits from a government review of barriers to accessing insurance caused by the lack of a mandatory standard lease for land for residential park residents, or other regulatory issues.

Relatedly, a participant in another focus group related the following experience:

> "We had an experience years ago with [insurance company]. We sold up, got a big van and we were going to get on the road and travel. We were at [name] caravan park for a while, until we got on our feet to go. And I got a phone call from the [insurance company] – 'We've cancelled your car insurance because you're not living at a residential address' I said we have got an address, we wrote 'care of' my daughter's address, where we were going to go in between trips. Nah, they wouldn't accept it. Cancelled our insurance completely." (Focus group participant).

This example indicates that marginally housed people, such as people living in caravans with no fixed address, may struggle to insure their important assets. It is critical to ensure the needs of people in such circumstances are catered for in the pursuit of any of these proposals.

Recommendation:

5. The lease agreement regulation regarding land in residential parks should be reviewed to ensure it does not act as a barrier to access to building insurance for residents. Other barriers to access to insurance for people who live in caravans and/or have no fixed addressed should be explored.

Conclusion

This report has identified three non-mutually exclusive proposals that governments could use to address affordability of insurance, with the aim of improving access to home, contents and vehicle insurance for people on low incomes, and made a further two recommendations. If these proposals are enacted, then more people would be financially protected during natural disasters, leading to better post-disaster outcomes for the individuals, communities, and the state.

With the exception of the suggestion for housing authorities to cover tenants' contents insurance in proposal 3, the proposals still require people on low income to find money in their budget for insurance premiums. While we can implement these proposals to lower the threshold for which households can afford to consider insurance, for many people on Centrelink benefits, and others living in poverty, this still will not be possible. The problem of uninsurance can only be comprehensively addressed by increased anti-poverty action, such as more adequate income support, and actions to address housing affordability and other cost of living pressures. In the face of ongoing poverty in South Australia, these proposals can only ever be partial solutions to the uninsurance problem.

These proposals to address insurance need to be pursued alongside greater action on climate change. Otherwise, natural disasters will continue to increase in frequency and severity, which will also mean insurance premiums will continue to rise to cover this increased risk. With climate change increasing natural disasters, insurance premiums increasing, and financial strain on households increasing during the COVID-19 pandemic, redressing the current situation is urgent. Access to insurance must be improved before the next severe natural disaster season reveals the extent and individual, societal, and financial costs of uninsurance in South Australia.

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SACOSS acknowledges traditional owners of country throughout South Australia, and recognises the continuing connection to lands, waters and communities. We pay our respect to Aboriginal and Torres Strait Islander cultures, and to elders past, present and future.