The Understand Insurance Research Report

Prepared by Quantum Market Research for the Insurance Council of Australia

October 2013
To better understand consumer attitudes around general insurance, the Insurance Council of Australia (ICA) commissioned Quantum Market Research to conduct a national online survey of more than 900 people.

The research project focussed on uncovering attitudes towards insurance, underinsurance and non-insurance.

The results of the survey form a key part of Understand Insurance, the ICA’s national consumer campaign aimed at empowering consumers to make better, more informed decisions by demystifying insurance.
Research methodology & sampling

- n=657 Homeowners appropriate for building insurance.
- n=917 Homeowners & Renters appropriate for contents insurance.

Homeowners/renters were screened to ensure the sample included:
- A nationally representative split of different age groups.
- A nationally representative split of different regions around Australia.

Respondents were asked to complete a short (10–12 minute) online survey. They were sourced from lists of Australians who have agreed to take part in online market research. These lists undergo careful quality control to ensure participants represent the wider community.
Sections of this report

- Summary of key findings
- Underinsurance
- Non-insurance
- Understanding of insurance
- Additional data
Summary of key findings
Top 10 findings from this research:

1. More than four in five Australian homeowners and renters (83%) are underinsured for their home and contents.
2. One in 25 Australian homeowners has an uninsured property.
3. 7% of homeowners and 63% of renters do not have contents insurance.
4. A third of Australians risk underinsurance by not updating their contents policy to cover new possessions.
5. Up to a quarter of Australians are knowingly unsure about what’s covered under their home insurance.
6. 18% of men think not having contents insurance wouldn’t affect them at all (compared with 8% of women).
7. Australians risk underinsurance by consistently selecting their policy based on low cost rather than adequate coverage.
8. In most cases, buildings (40%) and contents (68%) are insured according to householder evaluations.
9. Of homeowners who live in an area known for high fire danger, 14% are unsure whether their building insurance covers them against bushfires.
10. Of homeowners who live in an area with known flood risk, 23% are unsure whether their building insurance covers them against flooding.
Underinsurance
The overall prevalence of underinsurance

- If we define underinsurance as ‘any person who cannot resume their same standard of living in the event of a crisis’, then 83% of homeowners/renters could be considered underinsured.

Q16 Base: n=917
Homeowners/Renters

“In a total loss scenario*, where I had to claim back my property and possessions from insurance, I would…”

- **19%** Be much worse off and really suffer
- **34%** Be worse off and suffer quite a bit
- **30%** Be worse off but not really suffer
- **17%** Resume at least the same standard of living I have now

83% of homeowners/renters are underinsured

* n.b. Respondents were asked to exclude sentimental items and only consider their change in standard of living as a consequence of losing uninsured property/possessions.
In most cases, buildings and contents are insured according to the householder’s evaluations.

Source of building insurance valuation:

- Own estimate: 40%
- Insurer’s guidance: 24%
- Professional valuation: 20%
- Purchase price: 10%

10% Deliberately underestimated the value to lower their premium

Source of contents insurance valuation:

- Own estimate: 68%
- Insurer’s guidance: 17%
- Professional valuation: 9%
- Purchase price: 4%

9% Deliberately underestimated the value to lower their premium
In a high proportion of cases, insurance customers are neglecting important criteria when selecting their policy.

**Factors which weren’t considered at all:**

<table>
<thead>
<tr>
<th></th>
<th>n=494</th>
<th>n=112</th>
<th>n=200</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Excess</strong></td>
<td>33%</td>
<td>39%</td>
<td>35%</td>
</tr>
<tr>
<td><strong>Insurer’s reputation</strong></td>
<td>36%</td>
<td>42%</td>
<td>34%</td>
</tr>
<tr>
<td><strong>Exclusions</strong></td>
<td>46%</td>
<td>52%</td>
<td>51%</td>
</tr>
<tr>
<td><strong>T &amp; Cs (PDS)</strong></td>
<td>55%</td>
<td>59%</td>
<td>54%</td>
</tr>
</tbody>
</table>

- Older Australians (mature singles/couples) are more likely than younger (young singles/couples/young families) to consider ‘excess’ among the decision criteria.

A large number of insurance decisions are taken without careful attention paid to ensuring the level of cover is adequate.
Rather, at the expense of practical implications (such as policy exclusions), cost is driving choice of insurance

<table>
<thead>
<tr>
<th>Primary deciding factor: (% of cases)</th>
<th>Price (36%)</th>
<th>Price (34%)</th>
<th>Price (33%)</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>Exclusions (22%)</td>
<td>Insurer’s reputation (20%)</td>
<td>Exclusions (21%)</td>
</tr>
<tr>
<td></td>
<td>Insurer’s reputation (15%)</td>
<td></td>
<td>Insurer’s reputation (20%)</td>
</tr>
<tr>
<td><strong>n=483</strong></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td><strong>n=104</strong></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td><strong>n=192</strong></td>
<td></td>
<td></td>
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</tr>
</tbody>
</table>

- Price is consistently ranked highest across all demographics, however:
  - The poorest (lowest value household assets) are significantly more likely to rank ‘price’ highest.
  - The oldest generation (65+) is significantly more likely to consider ‘insurer’s reputation’ as the primary deciding factor.
    - This could be because they were more likely to have made a claim/had a bad experience during their lives. Or because they tend to be cynical toward gimmicks.

Australians risk underinsurance by selecting their policy based on low-cost rather than adequate coverage.
Non-insurance
Non-insurance is worryingly common among Australian homeowners/renters

**Homeowners: n=657**

- 4% Of homeowners don’t have **building** insurance

**Renters: n=260**

- 63% Of renters don’t have **contents** insurance

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1 in 25 Australian homeowners has an uninsured property.

Almost two-thirds of those renting a home in Australia do not have contents insurance.

Note: n=23 homeowners who said they are ‘covered by body corporate’ for building cover are not shown here.
Understanding of insurance
A third of Australians risk underinsurance by not updating their contents policy to cover new possessions

Whenever I buy something new of value, I ensure it’s covered by my contents policy:

<table>
<thead>
<tr>
<th>Strongly agree</th>
<th>Somewhat agree</th>
<th>Somewhat disagree</th>
<th>Strongly disagree</th>
</tr>
</thead>
<tbody>
<tr>
<td>15%</td>
<td>44%</td>
<td>37%</td>
<td>4%</td>
</tr>
<tr>
<td>19%</td>
<td>49%</td>
<td>29%</td>
<td>3%</td>
</tr>
</tbody>
</table>

Q18x/b Base: Those with insurance

• Neglecting to ensure contents insurance is kept up to date is consistently prevalent across all demographics.
  – However, the oldest generation (65+) is somewhat more likely to be on top of things.
In many cases, across the board, policy documents are not read in detail

I read every detail of the policy document:

<table>
<thead>
<tr>
<th>Strongly agree</th>
<th>Somewhat agree</th>
<th>Somewhat disagree</th>
<th>Strongly disagree</th>
</tr>
</thead>
<tbody>
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<td><strong>n=112</strong></td>
<td><strong>n=200</strong></td>
<td></td>
</tr>
<tr>
<td>Strongly agree</td>
<td>Somewhat agree</td>
<td>Somewhat disagree</td>
<td>Strongly disagree</td>
</tr>
<tr>
<td>9%</td>
<td>12%</td>
<td>14%</td>
<td>8%</td>
</tr>
<tr>
<td>46%</td>
<td>43%</td>
<td>36%</td>
<td>9%</td>
</tr>
<tr>
<td>37%</td>
<td>36%</td>
<td>35%</td>
<td>6%</td>
</tr>
</tbody>
</table>

• Surprisingly, all demographics, both young and old, are equally likely not to read their insurance policy in detail.

By not giving their policy adequate attention, a high proportion of Australians risk being underinsured because they don’t understand the details of their policy.
As many as one in five Australians don’t seek clarity when their policy is unclear

When in doubt, I clarify policy details:

Q18x-b Base: Those with insurance

- Older Australians and those who live regionally are more likely to seek clarity than the younger generation and urban dwellers.
- Failing to seek clarity is fairly consistent across all types of insurance, suggesting some people aren’t seeking clarity no matter what’s at stake.

Australians risk underinsurance by failing to seek clarity when their policy document is ambiguous/confusing.
Up to a quarter of Australians are knowingly unsure about what’s covered under their home insurance

I’m clear on what’s covered by my insurance:

<table>
<thead>
<tr>
<th></th>
<th>n=494</th>
<th>n=112</th>
<th>n=200</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Strongly agree</strong></td>
<td>14%</td>
<td>26%</td>
<td>25%</td>
</tr>
<tr>
<td><strong>Somewhat agree</strong></td>
<td>60%</td>
<td>51%</td>
<td>55%</td>
</tr>
<tr>
<td><strong>Somewhat disagree</strong></td>
<td>22%</td>
<td>20%</td>
<td>18%</td>
</tr>
<tr>
<td><strong>Strongly disagree</strong></td>
<td>4%</td>
<td>3%</td>
<td>2%</td>
</tr>
</tbody>
</table>

- When building and contents are combined in one policy, Australians are less likely to be clear on what’s covered than if they’re covered by separate policies.
  - By increasing complexity, Australians increase their risk of being unknowingly underinsured.

Australians risk underinsurance by being unclear on what is/is not covered by their policy.
Many Australians are uncertain about specific exclusions from their building insurance policy

Which damages are covered by your building insurance?

- **Terrorism**: 58%
- **Earthquake**: 45%
- **Flooding**: 37%
- **Lightning strike**: 35%
- **Fixtures and fittings**: 29%
- **Vandalism**: 27%
- **Bushfire**: 26%
- **Accidental water damage**: 26%
- **Cyclones/storms**: 22%
- **Accidental fire**: 22%

% who are ‘unsure’

- Natural hazards cause the most confusion. More than a third of Australians are uncertain whether they’re covered against flooding/lightning strike.
- About a quarter of Australians are unsure whether their building is covered against water/storm/fire damage.
- Regional Australians tend to have fewer uncertainties about their insurance coverage than do urban dwellers.
Queenslanders significantly more likely to be sure what is covered by their building insurance

Which damages are covered by your building insurance?

<table>
<thead>
<tr>
<th>Damage Description</th>
<th>NSW (%)</th>
<th>VIC (%)</th>
<th>QLD (%)</th>
<th>WA (%)</th>
<th>SA (%)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Terrorism</td>
<td>61</td>
<td>61</td>
<td>53</td>
<td>62</td>
<td>59</td>
</tr>
<tr>
<td>Earthquake</td>
<td>47</td>
<td>48</td>
<td>48</td>
<td>44</td>
<td>28</td>
</tr>
<tr>
<td>Flooding</td>
<td>36</td>
<td>46</td>
<td><strong>18</strong></td>
<td>33</td>
<td>39</td>
</tr>
<tr>
<td>Lightning strike</td>
<td>39</td>
<td>42</td>
<td><strong>30</strong></td>
<td>30</td>
<td>44</td>
</tr>
<tr>
<td>Fixtures and fittings</td>
<td>29</td>
<td>34</td>
<td><strong>22</strong></td>
<td><strong>13</strong></td>
<td>30</td>
</tr>
<tr>
<td>Vandalism</td>
<td>30</td>
<td>34</td>
<td>30</td>
<td>23</td>
<td>20</td>
</tr>
<tr>
<td>Bushfire</td>
<td>29</td>
<td>33</td>
<td><strong>19</strong></td>
<td>21</td>
<td>24</td>
</tr>
<tr>
<td>Accidental water damage</td>
<td>26</td>
<td>31</td>
<td>25</td>
<td>25</td>
<td>20</td>
</tr>
<tr>
<td>Cyclones/storms</td>
<td>27</td>
<td>29</td>
<td><strong>13</strong></td>
<td>16</td>
<td>22</td>
</tr>
<tr>
<td>Accidental fire</td>
<td>22</td>
<td>24</td>
<td>24</td>
<td>13</td>
<td>17</td>
</tr>
</tbody>
</table>

*Indicates significantly less likely than other states to be unsure about coverage.*

Q19 Base: Those with building insurance
Summary of at-risk homeowners/renters
Australians who live in at-risk areas ...

- **Q20: Those who live in an area with ‘known fire risks’/‘known flood risks’/‘high crime rate’.

  **Q19 Base: n=71**
  Homeowners with building insurance who live in crime risk

  Of homeowners who live in an area with high crime rates, 30% are unsure whether their building insurance covers them against vandalism.

  **Q19 Base: n=40**
  Homeowners with building insurance who live in flood risk

  Of homeowners who live in an area with known flood risks, 23% are unsure whether their building insurance covers them against flooding.

  **Q8 Base: n=71**
  Homeowners/Renters who live in crime risk

  23% of homeowners/renters who live in an area with high crime rates do not have contents insurance.

  **Q19 Base: n=65**
  Homeowners with building insurance who live in fire risk

  Of homeowners who live in an area known for high fire danger, 14% are unsure whether their building insurance covers them against bushfires.
Financially insecure Australians...

- Q20: Those who have ‘less than two months pay in savings’ and/or ‘Credit card debt more than two months pay’.

Q15ax Base: n=136
Insecure homeowners with building/contents combined insurance

Are significantly more likely than average to select their building/contents insurance based primarily on price – 44% chose their policy this way.

Q16 Base:
Insecure homeowners (n=184)/renters (n=127)

Are somewhat less likely to believe they are adequately insured – only 16% of insecure homeowners/13% of insecure renters perceive they could resume their standard of living in the event of a crisis.
Young Australians (aged 18-29)...

- **Q2: Those who are 18-29 years old.**

  Q17 Base:
  
n=213 Young Australians (18-29)
n=817 Older Australians (30+)

  Young Australians are significantly more likely to feel non-insurance is acceptable:
  
  - 28% think contents insurance is unnecessary if their home is safe from crime (vs. 13% of those 30+).
  - 21% believe it’s acceptable to go without building insurance if in an area without natural disasters (vs. 9% of those 30+).
Additional data
## Uncertainty about what is/isn’t covered under building insurance

### Which damages are covered by your building insurance?

<table>
<thead>
<tr>
<th>Damage</th>
<th>Definitely covered</th>
<th>Unsure</th>
<th>Definitely not covered</th>
</tr>
</thead>
<tbody>
<tr>
<td>Terrorism</td>
<td>15%</td>
<td>58%</td>
<td>27%</td>
</tr>
<tr>
<td>Earthquake</td>
<td>45%</td>
<td>45%</td>
<td>10%</td>
</tr>
<tr>
<td>Flooding</td>
<td>52%</td>
<td>35%</td>
<td>13%</td>
</tr>
<tr>
<td>Lightning strike</td>
<td>60%</td>
<td>37%</td>
<td>3%</td>
</tr>
<tr>
<td>Fixtures and fittings</td>
<td>67%</td>
<td>27%</td>
<td>6%</td>
</tr>
<tr>
<td>Vandalism</td>
<td>68%</td>
<td>29%</td>
<td>3%</td>
</tr>
<tr>
<td>Bushfire</td>
<td>69%</td>
<td>26%</td>
<td>5%</td>
</tr>
<tr>
<td>Accidental water damage</td>
<td>71%</td>
<td>26%</td>
<td>3%</td>
</tr>
<tr>
<td>Cyclones/storms</td>
<td>75%</td>
<td>22%</td>
<td>3%</td>
</tr>
<tr>
<td>Accidental fire</td>
<td>77%</td>
<td>22%</td>
<td>1%</td>
</tr>
</tbody>
</table>

*Q19 Base: n=606
Those with building insurance*
Significant differences by gender

Q11b & Q13 (Bases vary)

Men are significantly more likely to play down the worst case scenario of non-insurance.

- 18% think not having contents insurance ‘wouldn’t affect them at all’, (compared with 8% of women).

Q16 Base:

n=398 Men
n=632 Women

Q17 Base:

n=398 Men
n=632 Women

Men are significantly more likely to feel non-insurance is acceptable:

- 22% think contents insurance is unnecessary if their home is safe from crime (vs. 13% of women).
- 16% believe it’s acceptable to go without building insurance if in an area without natural disasters (vs. 9% of women).

Women are significantly more likely to be financially insecure. Almost a third (31%) of women have less than two months pay in savings, vs. Less than a quarter of men (24%).