



Friday 10 February 2017

Senate Standing Committees on Economics
PO Box 6100
Parliament House
Canberra ACT 2600

To whom it may concern

Re: Inquiry into Australia's General Insurance Industry

Thank you for the opportunity to make a submission to the Senate Inquiry into Australia's General Insurance Industry. Our submission covers two of the seven points in the Terms of Reference with a focus on vulnerable Australians:

- (a) The increase in the cost of home, strata and car insurance cover over the past decade in comparison to wage growth over the same period
- (b) Competition in Australia's \$28B home, strata and car insurance industries

ABOUT GOOD SHEPHERD MICROFINANCE

Good Shepherd Microfinance is a world leader in financial inclusion products, services and advisory. We offer fair and affordable financial programs to people on low incomes, and advisory services with a global reach.

We work collaboratively with the corporate, government and community sectors to create people-centred programs that enable clients to realise their own economic wellbeing, as they define it themselves. This approach leaves clients feeling valued and in control of their finances and lives.

We're guided by our mission to enable economic wellbeing for people with low incomes, especially women and girls, and by our values of human dignity, respect, social justice, audacity, compassion and reconciliation.

Good Shepherd Microfinance and Insurance

In 2013, Good Shepherd Microfinance, with the support of NAB, released a discussion paper on insurance access for people on low incomes titled '[Covering the Essentials](#)'. We received feedback from a range of sources including insurers, community sector legal centres and government agencies highlighting a number of important issues and barriers impacting people on low incomes such as:

- consumer access to fortnightly payments
- the need for further industry research in certain areas (market size and distribution channels)
- an opportunity to focus on home contents insurance as 'low-hanging fruit'
- widespread concern about access to affordable and appropriate motor vehicle insurance



In 2014 the Centre for Social Impact and the NAB published a report, [Measuring Financial Exclusion in Australia](#). One of the report's findings was that almost 20 percent of Australians go without general insurance. Non-insurance leaves people unprotected should they experience a loss, preventing them from confidently building assets or having reliable access to a car. This is especially true for people on low incomes, as they are least able to absorb financial shocks or readily replace lost assets.

These two reports led Good Shepherd Microfinance to develop a business case to design insurance products specifically to meet the needs of people on low incomes. Our Good Insurance program was established in 2014 and has collaborated with Australia's two largest general insurers – Suncorp Group and Insurance Australia Group – to co-design new car and home contents insurance products that are designed: to address barriers to entry into general insurance contracts, build trust and understanding of insurance and protect low income consumers with appropriate insurance products and fair contract terms.

Good Insurance

People on low incomes are acutely vulnerable to financial shocks. Replacing essential items like computers and whitegoods or repairing a car, can cause financial hardship and significantly disrupt daily lives – often these items are simply too expensive to replace.

Our Good Insurance program works with Australia's largest insurance companies to create fair, affordable and simple insurance policies for people on low incomes. These products enable people to insure their household belongings or cars, so they're protected if things go wrong.

If an insurance policy has been developed with Good Insurance, you know it has been designed for the customer, has affordable pricing and offers flexible payment options. Good Insurance co-created Australia's first two insurance products designed for people on low incomes:

- **Essentials by AAI**, developed with Suncorp Group, allows customers to comprehensively insure their car, their home contents or both. Customers can also choose to pay premiums annually, or in monthly or fortnightly instalments, and use Centrepay to manage payments. Essentials by AAI is co-branded by Good Shepherd Microfinance and is currently available through 18 community organisations that are part of Good Shepherd Microfinance's national provider network. Over the next two years, we will roll out Essentials to 36 providers in the network. [Essentials by AAI](#) has won six industry awards for innovation since its launch in September 2015.
- **Insurance 4 That**, developed with Insurance Australia Group (IAG), is a single-item insurance solution. It provides an alternative to traditional contents insurance by enabling people to insure individual items and nominate the insured value of these items. It also gives customers the option to take out additional cover for portable items against theft anywhere in Australia, and comes with flexible payment options. [Insurance 4 That](#) is available online and was tested in pilot with 10 community organisations that are part of Good Shepherd Microfinance's national provider network in 2016. The learnings from the pilot were that the low premium for single items and the ability to pay fortnightly were important product features for people on low incomes.



Education and advocacy for people on low incomes

In addition to product development, we have also been working on educational materials to help people on low incomes understand the risks of non-insurance and under-insurance.

In 2016 we published, in partnership with the Queensland government, our [Money Ready Toolkit](#), which addresses the issue of financial resilience in the face of natural disasters, for which general insurance is a fundamental requirement. For example, in Queensland one in three households has no contents insurance and one in 10 has no home insurance (2016 RACQ Household Cover Index).

We are also participating in the Victorian Government's project to develop a strategy to encourage Victorians to take up, review and update their household insurance and thereby increase their resilience to emergencies.

CHALLENGES AND SOLUTIONS

Through this work, we have drawn some informed conclusions about the 'barriers to entry' for insurance for people on low incomes. We estimate that approximately 1.5 million people are directly impacted by these four fundamental barriers to entry for insurance:

1. **Affordability** – where the price point for general insurance excludes people on low incomes from participating
2. **Accessibility** – where other product features, such as payment frequency and method, excludes people on low incomes from participating
3. **Understanding** – where a lack of financial literacy, and therefore a lack of understanding of insurance and the contribution that insurance makes to personal financial resilience - excludes people on low incomes from participating
4. **Trust** – where a lack of trust of insurers (“they won’t pay out”; “they won’t insure me”; “did you hear about this claim where...”) results in people on low incomes choosing not to participate

The results of our Good Insurance program to date clearly demonstrate that these barriers to entry can be broken down through innovative approaches to what seem, at first glance, to be intractable problems.

Barrier	Solution
Affordability	A targeted approach to what is covered, has been shown to enable more affordable premiums for 'essential' protection.
Accessibility	There is clear evidence that the introduction of weekly or fortnightly premiums (as opposed to monthly, half-yearly or yearly) are very popular with people on low incomes. This illustrates that people want insurance, but can't access it if payment frequency is inflexible. Shorter payment cycles remain the exception in the insurance industry today, even for government insurers such as the Victorian Compulsory Third Party scheme.

<p>Understanding</p>	<p>This remains a huge opportunity for innovation - particularly in the area of communication – on the part of industry and regulators. A simple but compelling example of this is the current form and content of Product Disclosure Statements (PDS), which are impenetrable for most of us, let alone those who have low levels of literacy and numeracy. We believe that a human-centred design approach to PDS regulation and development has the potential to transform PDS from being part of the problem, to being a genuine part of the solution to the issues of trust and understanding. One example is the animated PDS developed for Essentials by AAI.</p>
<p>Trust</p>	<p>A key challenge is bridging the trust gap - between a highly regulated industry with multiple layers of consumer protection and dispute resolution, and the people for whom regulation, consumer protection and dispute resolution have been created.</p> <p>There is clear evidence from our work that using a trusted local community organisation to provide information to vulnerable clients is effective in raising awareness of affordable and accessible insurance products and results in increased take-up of general insurance.</p> <p>In addition, we would like to see the Unfair Contract Terms Regime extended to general insurance contracts as an important tool in protecting consumers and an opportunity to build trust with the industry.</p>

FUTURE OPPORTUNITIES

There is a significant opportunity to expand our Good Insurance program to:

- (i) Create greater competition between insurers for the lost 20 percent of the market for Car, Home and Contents insurance;
- (ii) Establish “Good” insurance products for other insurance lines, including Funeral and Pet insurance where this is a clear demand among low income households;
- (iii) Develop simple and clear communication about insurance tailored to vulnerable audiences including transforming the PDS from being a barrier to trust and understanding, to being an enabler of trust and understanding; and
- (iv) Educate and engage grass-roots community workers as a trusted channel for providing information about insurance.



We are seeking to significantly scale our Good Insurance program to reach the more than 1.5 million people who need access to fair and appropriate insurance products. This would require seed funding from the Australian and State governments to establish the foundations of the Good Insurance program. We are also discussing opportunities with insurance companies to invest in sustainable products that will improve reputation and customer loyalty whilst also addressing this market gap.

Thank you for the opportunity to make a submission to this important Inquiry. Please contact myself or our General Manager – Innovation and Marketing, _____, on _____ to discuss our work further.

Yours sincerely

Chief Executive Officer