INSURANCE COUNCIL OF AUSTRALIA

THE NON-INSURED: WHO, WHY AND TRENDS

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CONTENTS

EXECUTIVE SUMMARY

After a major natural disaster in Australia, it is common to hear accounts of families who have lost their homes and possessions. Among these there are all too often accounts of households who were uninsured. Unfortunately these are not isolated cases. It is estimated that of Australia's 7.7m households, 23 per cent or 1.8m residential households do not have a building or contents insurance policy.

This report addresses two key issues:

- First, it closely examines who the non-insured are, focusing on those who do not have building and contents insurance.
- Second, it addresses the effect of government policies on the extent of non-insurance.

The report looks across time and jurisdictions to examine whether state based taxes and charges are linked to differences in rates of non-insurance.

The Nature of the Problem

The level of non-insurance is of significant concern to the insurance industry. To help address the concern, the Insurance Council commissioned this analysis of non-insurance. To date there has been relatively little analysis of what is a significant issue.

Non-insurance is also a significant concern for policy makers. Government policy can impact both the costs and benefits of the decision to purchase insurance. In Australia there are a number of premium based charges which lead to effective taxes of around 40 per cent on a home insurance policy premium in some jurisdictions. These are in addition to other business related taxes and regulatory compliance costs that raise the cost of supplying insurance. Often government expenditure programs are justified as providing a form of social insurance addressing the needs of those who are not insured. At the same time however, such government policy can negatively impact the benefits of private insurance wereby the provision of after the event support to the non-insured can reduce the incentive to become insured.

The impact of government policies that increase the cost or reduce the benefits of insurance would be of lesser concern if these policies did not influence consumer behaviour. To date however, there has been relatively little research on the effect of government policies on the extent of non-insurance. This report seeks to remedy this situation. Thus a focus of this report is to look across time and jurisdictions to examine whether state based taxes and charges are linked to differences in rates of non-insurance.

The Data and Approach Used

The analysis in this report makes use of survey data from Roy Morgan Research known as Roy Morgan Single Source (RMSS). Using this data, a profile of the non-insured is developed. Non-insurance is examined in terms of factors including age, income, psychographic segments, life stages, living arrangements, house type and country of birth. The report examines non-insurance relating to both building and contents insurance.

Findings: Who are the Non-Insured?

A starting point for analysing the non-insured is home type and tenure type (i.e. whether a home is owned out right, being paid off, rented or other). Building insurance is only applicable for home-owners whose dwelling is not insured by a body corporate. Although contents insurance is applicable to all those with some contents to insure, the take-up of contents insurance is also shown to be closely related to that of building insurance. Non-insurance for contents cover is greater for renters and those living in flats and other non-detached houses. The findings are consistent with contents insurance often being purchased in conjunction with building insurance.

The report finds non-insurance for both building and contents cover is closely correlated to indicators of financial position. A common theme shows those on lower incomes (including home owners) are less likely to have both building and contents insurance. Of concern is that there are many non-insured who are greatly exposed in case of a loss. For example, although the rate of non-insurance is much lower for those with mortgages it is still significant. Furthermore, the report finds that across income groups with fewer savings and other investments are more likely to be non-insured.

Non-insurance is also closely correlated with many demographic variables including life-stage, age, location, education and country of birth. Many of these demographic characteristics are highly correlated with each other and with income and other measures of financial position. In summary, non-insurance tends to be associated with those:

- at earlier stages of life
- living in cities and in particular regions within cities
- born in non-western countries
- in particular 'value' segments
- with lower levels of education
- without full-time work

The results are consistent with people weighing up the costs and benefits of insuring and insuring primarily when they have significant assets to insure and sufficient funds to do so. Of concern, is that non-insurance appears to be higher for many demographic segments, such as retirees with mortgages and single parents - those who are most exposed in case of loss.

The Effects of State Taxes on Non-Insurance

This report also considers the effect of state based insurance taxes on non-insurance. Rates of non-insurance are found to be closely correlated with insurance taxes when examined over time and across jurisdictions. Following the removal of the Fire Services Levy in Western Australia (which came into effect 1 January 2004), the level of non-insurance in both building and contents (as measured from the Roy Morgan Research data) declined while rates climbed elsewhere.

The Roy Morgan Research data and the Australian Bureau of Statistics (ABS) Household Expenditure Survey (HES) data support the finding that states with higher tax rates on insurance premiums have higher rates of non-insurance for both building and contents insurance. NSW and Victoria continue to maintain a Fire Service Levy on building and contents insurance adding 15 – 20 per cent onto insurance costs. There is a notable gap between rates of non-insurance in these states and those that do not have such a levy. This gap in the rate of non-insurance appears to occur across age groups, income profiles and stages of life. The effect of state taxes is much more noticeable for contents insurance, consistent with the view that households are more price sensitive with regard to contents insurance.

The anguish of the non-insured in times of loss is felt by others in society and is often met with government assistance. High state taxes on insurance result in a greater number of non-insured people and governments should investigate alternative means of funding. In particular, NSW and Victoria should, as Western Australia and other jurisdictions before them, consider more equitable and less distortionary means for funding fire and emergency services. Given the societal benefits to having households insured, government policy should be focussed on ways to encourage a broader insurance coverage, not discourage it.

1 INTRODUCTION

The Insurance Council of Australia, the peak body for the general insurance industry, engaged the Centre for Law and Economics to investigate the issue of non-insurance focusing on those who do not have building and contents insurance using data from Roy Morgan Research.

This report presents the results of this work. The report is divided into six remaining sections.
Section 2 provides background on what we currently know about why people are not insured. Section 3 reviews the data used for this report. Sections 4 – 6 provide the main findings based on the Roy Morgan Research data supplemented with analysis from the HES. Section 4 profiles the non-insured examining demographic and other factors that are correlated with non-insurance. Section 5 looks at changes in rates of non-insurance over time. Section 6 examines the relationship between non-insurance and state based insurance taxes. Section 7 concludes.

2 BACKGROUND

2.1 Why do people insure or not insure?

It is typical to assume people insure because they are risk averse i.e. that the possibility of a loss is significantly unpleasant that people are willing to pay an insurance premium to avoid a loss or be covered for a loss. As well as offering 'peace of mind', insurance can enable people to provide protection to their creditors and enable them to enter into transactions that might otherwise not occur.[1] There are also supplementary benefits to insuring. Insurers offer ancillary services such as providing assistance during the period that the loss is being addressed.

Why then do some people not insure? Quite simply this may be because they feel the benefits of obtaining insurance do not outweigh the costs.

It is possible that people see little benefit in insurance. This may be because they have very little to insure (e.g. a young person with few assets), that they are not risk averse or that they are sufficiently wealthy such that the potential loss would be of little significance. The benefits of insurance may also be reduced by other forms of risk protection. For example, governments may reduce the benefits of insurance by providing compensation to those who are uninsured (i.e. through disaster relief) or simply providing means tested assistance.

The costs of insurance relates directly to the issue of affordability. People may not insure due to the high cost of insurance relative to their own income or wealth. For many, the cost of insurance may be simply more than they can reasonably afford.

If they were to only pay a premium equivalent to their expected loss, then we would predict the risk averse to fully insure against all risks. The management and administration of provision of insurance is however, not costless and thus there are fixed costs to insurance provision. Governments can impact on the cost of insurance directly, via the application of taxes and indirectly via regulations that increase the cost of providing insurance. The application of premium taxes are especially concerning as they are not only applied on the expected claims cost but also on the management and administration cost of insurance provision.

The costs of insurance not only include the premium paid but also the transaction costs of purchasing insurance. People may find purchasing insurance a significant chore and put off doing so. This is supported by anecdotal evidence that people are more likely to take out contents insurance once they take out building insurance.

Given the considerations above, we might expect the non-insured to be poor because they have little to insure and/or unable to afford insurance premiums or potentially the wealthy as they have more scope to self-insure.

There are a number of reasons to expect people are more price sensitive with respect to contents insurance than for building insurance. First, the potential loss for building insurance tends to be greater than that for contents insurance and so we would expect people to be more risk averse with regard to building damage than to damage or loss of contents. Second, people have more opportunity to self-insure contents insurance. People may self-insure contents to an extent by replacing lost or damaged contents with lower-quality items or forgo replacing some items. With most building insurance claims these options are not available as, almost by necessity, the damage needs to be corrected as soon as possible by professional trade's people. Thirdly, those with a mortgage may be required by lenders to take out building insurance.

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[1] For example, lenders may fund a much larger home loan if the borrow takes out mortgage insurance.

2.2 Previous studies of non-insurance

To date, in Australia there have been two key sources of data on insurance coverage relating to building and contents insurance, these are:

- The Household Expenditure Survey (HES), produced by the Australian Bureau of Statistics (ABS); and
- A one-off survey commissioned by NRMA insurance in 2001.

The ABS HES is conducted every five years. The most recent survey was conducted over the period 2003/04 and was released in August 2005. The HES is a significant survey that covers every item of household expenditure. Of note is that it records sums spent on building insurance and contents insurance for the existing dwelling. An analysis of this data can be used to identify the non-insured. The Insurance Council has previously obtained sample queries of this data.

In 2001 the NRMA Insurance released commissioned research titled "Home and Motor Vehicle Insurance: A Survey of Australian Households (October 2001)". This study was a targeted study of insurance and non-insurance. Respondents were asked whether their household was covered with buildings and/or contents insurance. Of note is that respondents were also asked questions as to why they do not have insurance and their likelihood of purchasing insurance if insurance taxes were removed. Unfortunately only a limited number of demographic variables were presented in the report. The results of the survey were consistent with that found in the ABS HES data.

In addition to these studies there are anecdotal reports of non-insurance. Following significant disasters there are often reports of houses being uninsured. Following the 2003 Canberra bushfires there were estimates that one in four homes affected were uninsured.[2] The NRMA reported they received calls "from people wanting insurance when they have seen the fires jumping ridges and coming towards their home".[3] The 2003 Canberra bushfires also prompted an investigation by the Australian Securities & Investments Commission (ASIC) into building *under* insurance. The investigation (ASIC 2005) noted research that suggested "between 27 per cent and 81 per cent of consumers were underinsured by 10 per cent or more against current rebuilding costs."

[2] "Insurers braced for $100m payout as claims flow in", SMH, January 22 2003, http://www.smh.com.au/articles/2003/01/20/1042911332591.html, downloaded 31 March 2007
[3] "Many uninsured, and you can't get cover when fire's on the doorstep", SMH, December 9, 2002, available at http://www.smh.com.au/articles/2002/12/08/1038950274337.html, downloaded 31 March 2007

3 DATA AND DATA LIMITATIONS

3.1 Background of data used

The Roy Morgan Research data, the basis of this study, is a large continuously updated information source based on survey questions administered to individuals (people aged 14+) across Australia. Similar surveys are conducted by Roy Morgan in New Zealand, the United States, the United Kingdom and Indonesia. The survey asks a broad range of questions relating to lifestyle and attitudes, media consumption habits, brand and product usage, purchase intentions, retail visitations, service provider preferences, financial information and even recreation and leisure activities.

Of importance to this study, is that the Roy Morgan Research covers a range of insurances (listed in appendix A1) and contains a large range of supporting demographic variables. The most striking features of the Roy Morgan Research are the sample size, timeliness, extent of geographic information and accessibility. The Roy Morgan Research survey is based on a very large base survey sample (more than 50,000 per year in Australia). The Roy Morgan Research data is updated with surveys on average of 1,000 additional individuals each weekend and data is made available within a number of weeks. The Roy Morgan Research enables analysis by different regions within each state (for example, in NSW there are 17 regions that could be analysed depending on sample size). Finally the Roy Morgan Research is very accessible. The Roy Morgan Research is provided with a proprietary database software (ASTEROID).

The analysis in this report is supplemented with data from the ABS HES mentioned in the previous section.

3.2 Data limitations

Despite its advantages, there are a few limitations with using Roy Morgan Research for the purposes of analysing non-insurance. The Roy Morgan Research survey is designed to obtain a wide range of information on individuals and the products/ services used by them. As such the survey scope is not designed to focus and question only a particular topic such as non-insurance.

Whereas, the interest in non-insurance may tend to be focussed on the household, the Roy Morgan Research survey question on insurance is a question designed to ask about individual insurance coverage. The Roy Morgan Research survey question asks

> "Next about <u>insurance</u>. Turning to the next page. Which, if any, of those types of <u>insurance</u> <u>cover</u> do you <u>personally</u> have?"
> [Emphasis as contained in Roy Morgan Research documentation]

A question follows about the self or joint ownership of the insurance policy.

Thus some survey respondents might be expected to state they do not have building insurance even if their building was insured but the cover was obtained by the another party (e.g. partner, spouse or parent).

In contrast, the 2001 survey commissioned by NRMA that focussed on insurance asked:

> "Q. Home Buildings Insurance usually covers your home and all the fittings and fixtures in it. Is your *home* covered by Buildings Insurance?" [Emphasis added]

As a result, the reported rates of non-insurance appear to be higher from the Roy Morgan Research than from the NRMA survey or the HES. The percentage of home owners with building or contents insurance for the NRMA survey and for HES is around 96 per cent. In comparison, from the Roy Morgan Research, in

2003/04 (a similar period to the HES) only around 91 per cent of main-income earners who live in a home that is owned (outright or being paid off) report having a building or contents insurance cover.
The key implication of this issue is that it is difficult to use the Roy Morgan Research data to estimate the total number of non-insured or the rate of non-insurance. There are a number of strategies that can be used to mitigate or address this issue. The results of the Roy Morgan Research could be combined with the HES data to develop consistent estimates over time. In this study the issue has been mitigated by using a number of selection criteria. Using the range of demographic variables, we can attempt to exclude those respondents who would be covered by insurance but who do not *personally* have the insurance cover. For most analysis conducted, only observations where the respondent is the household's "main income earner" are used. For some analysis, the selection is limited to those who also personally have a mortgage.

In the charts in the following sections using the Roy Morgan Research data, the vertical axis represents the percentage of respondents of the selected sample who did not state they personally have the insurance cover. Due to the respondent focus (and despite the application of some controls e.g. limited to main-income earners) this statistic may overstate the total rate of non-insurance and should not be interpreted as such. There is however, no apparent reason for this issue to bias analysis that compares rates of non-insurance over time or across states. There is a risk this issue may be more pronounced for some demographic factors (e.g. it should be less significant for those living alone than for couples).

Another limitation for our study is that Roy Morgan has made enhancements to the insurance questionnaire over time in line with market developments. Most significantly in May 2005, they allowed respondents to select "Combined Buildings & Contents" insurance as an alternative to separately selecting "Building insurance" and "Contents insurance" as it was anecdotally believed that most people take out a combined policy with one company and some of these respondents might not have found this option of the Roy Morgan Research survey before. It appears that coinciding with this change in the survey, as expected there was a slight increase in the proportion of respondents having building insurance also stating they have contents insurance.

3.3 Other data matters

A common survey technique used by the HES and the Roy Morgan Research is to apply sampling weights to observations that can be used to make a survey sample reflective of a known population. The Australian Roy Morgan Research has two weights applied to the data: respondent weights and household weights. With respondent weights, the final weighted count will equal the total population of Australia aged 14+. With household weights, the weighted count will equal the total number of occupied private dwellings in Australia.

Using weights is preferable so as to compensate for difficulties in surveying a truly random population sample. The choice of weight (whether respondent or household) was found to have very little difference to the rate of non-insurance. For the analysis conducted respondent weights were used as the primary question of interest (relating to whether a person is covered by insurance) is a question relating to the respondent.

4 PROFILING THE NON-INSURED

4.1 Overview

Based on the 2003/2004 HES data it is estimated that of 7.7m households, 23 per cent or 1.8m households had no expenditure on buildings or contents insurance. This section aims to profile those people and households that are not insured. It examines many factors that are correlated with, and may contribute to, non-insurance.

The analysis in this section begins with a consideration of home type and tenure. These two factors are critical because, as discussed below, they determine the applicability of building insurance and also prove to be highly correlated with the take-up of contents insurance.

The section then considers other factors including financial exposure, income and demographic factors. As shown below, there are a great many factors correlated with non-insurance. These costs and benefits of insurance are likely to change by age, income, attitudes and other demographic factors. Many of these factors are co-related for example, we might expect that couples are more likely to have significant assets to insure, have higher income to afford insurance and may be more risk averse than single people.

By using simple queries available for this study, it is possible to profile the non-insured. However, this analysis is not able to assess the importance of different factors due to the correlation between factors. Assessing the importance of factors may be possible with an econometric (multi-variate analysis) study using unit record data (not available for this study). Through sample selection (e.g. selecting only home owners) it has been possible to control for some co-related factors.

This section presents a number of charts to illustrate the findings. Unless otherwise noted, the source of data for these is the Roy Morgan Research survey data. Due to the large sample sizes from the Roy Morgan Research the relative standard errors are typically very small and thus observed differences in non-insurance rates are typically statistically significant. Cases where relative standard errors are large are noted by exception.

The analysis of Roy Morgan Research survey data is supplemented with some analysis of the ABS HES. The HES is used to estimate the total number of households without insurance.

4.2 Home type and tenure

Home type (e.g. whether it is a house or a flat) and tenure (i.e. whether a home is owned out right, being paid off, rented or other) are factors that determine the applicability of building insurance. Home tenure is a factor in that building insurance is not-applicable for those who do not own (or are paying off) their dwelling.

Home (i.e. dwelling) type also determines applicability of building insurance. Building insurance is not applicable for those who live in dwellings in which the building insurance is paid for by a body corporate. This would largely include apartments but may also include many dwellings described as semi-detached buildings or town-houses.

These points are demonstrated in Table 1, based on the 2003/04 HES survey. The table shows the estimated number of owner occupied households by dwelling type, the number of these without expenditure on body corporate fees and the number without expenditure on body corporate fees or building insurance i.e. that are not covered by building insurance. A large portion of households in flats and semi flats pay body corporate fees and thus indirectly have building insurance cover. From the table it would appear around 203,000 owner occupied households in total are without building insurance, either directly or indirectly via payment of body corporate fees.

Table 1: Households without building insurance (000s of households)

	House	Semi[4]	Flat/ other	All
Owner occupied dwellings	4,861	320	235	5,417
…not paying body corporate fees (a)	4,778	161	56	4,996
… and without building insurance (b)	185	8	10	203
% optionally non-insured (b)/(a)	3.9%	5.0%	17.9%	4.1%

Source: ABS HES 2003/04

All adults and households regardless of home type and tenure might potentially purchase contents insurance. The number of households without contents insurance is shown in Table 2. Of the 7.7m Australian households it is estimated 28 per cent or 2.2m of these are without contents insurance.

Home type and tenure also prove to be very significant factors affecting the take-up of contents insurance. As shown in Table 2, those who own or are paying off their home are far more likely to have contents insurance than those who are not.

Table 2: No contents insurance by tenure (000s of households)

	Dwellings	No Contents Insurance	% without insurance
Own / paying off	5,417	625	12%
Rent/ other	2,319	1,545	67%
Total	**7,736**	**2,170**	**28%**

Source: HES 2003/2004

There are broadly two reasons why renters are less likely to have contents insurance. Firstly home tenure is highly correlated with other demographic and psychographic factors including incomes and wealth, attitudes to risk, living arrangements and age. Renters tend to be younger people with lower incomes. Owners are more likely to be older, wealthier and arguably more risk averse.

The second reason relates to the transaction costs of purchasing insurance. It is argued that when home owners purchase building insurance they are more likely to also purchase contents insurance at the same time.

This second argument appears to be supported by data on the take-up of contents insurance by house type shown in Table 3. The proportion of owners without contents insurance for those living in detached houses is estimated to be 10 per cent. This is much lower than the equivalent estimate for those living in flats (31 per cent) whereby the body corporate pays for the building insurance and for the semi category (16 per cent) for which some dwellings are managed by a body corporate. This evidence is not conclusive as there are potentially other factors may play a part. Those living in flats may have less need for insurance as they have fewer items and face different risks (for example, the risk of theft of contents may differ between flats and detached houses). This argument may be potentially further explored with an econometric analysis using the HES or Roy Morgan Research data.[5]

[4] A semi is described as a "Semi-detached, row or terrace house, townhouse etc."
[5] For example, using an econometric analysis it may be possible to control for other factors such as household income, net wealth, age etc to determine the extent that contents insurance is purchased as a result of buying building insurance.

Table 3: No contents insurance by dwelling type

	House	Semi	Flat
Owners (inc paying off)	4,861,157	320,302	235,193
Without contents	496,236	52,701	75,961
Rate of no-contents insurance	10%	16%	32%

Source: HES 2003/2004

KEY FINDINGS: HOME TENURE AND DWELLING TYPE

Home tenure and dwelling type are critical factors in determining the demand for building and contents insurance. Building insurance is only applicable to those households who own (or are paying off) their dwelling and in dwellings that are not part of a body corporate.

Non-insurance for contents cover is much greater for renters and those not living in detached houses. This is consistent with contents insurance often being purchased in combination with building insurance.

4.3 Financial position

We might expect a household's or a person's financial position to have a significant effect on the decision to purchase insurance. In particular, we would expect those with a mortgage to be more likely to take out insurance for two reasons. Firstly, it is a standard requirement by mortgage lenders that the mortgagee take out building insurance on the home. Secondly, those with a mortgage will be more exposed in the case of a loss. These two effects might be partially offset by an income effect. Those without a mortgage have a greater disposable income for insurance.

Given the significance of the first two effects, we might expect households / people who are paying-off their home to be well protected by building insurance. Surprisingly, the evidence is that there are many who are paying off their homes who currently do not claim to have any form of buildings or contents insurance. Table 4 (using HES data) shows the estimated numbers of detached houses without insurance by whether the house is owned outright or is being paid off. Of the estimated 203 thousand owner-occupied dwellings without building insurance, 54 thousand are being paid off.

Table 4: No building insurance by whether has mortgage

	Not paying body corporate fees (000s)	Without Building Insurance	
		(000s)	%
Own House	2,496	149	6.0%
Mortgage	2,500	54	2.2%
Total	**4,996**	**203**	**4.1%**

Source: HES 2003/2004

The richness of the Roy Morgan Research data can be used to test how those without building insurance vary with characteristics of the mortgage. The Roy Morgan Research data includes information on:

- The value of a person's home (a self reported figure)
- The number of years the mortgage has been held for
- Savings and investments
- Outstanding debts

We might expect that the longer someone has held a mortgage, the less they have outstanding on the mortgage and the less compelled they are to have insurance. This is demonstrated in Figure 1. The proportion of respondents who reported having no building or contents insurance increases with the years the mortgage has been held for.[6]

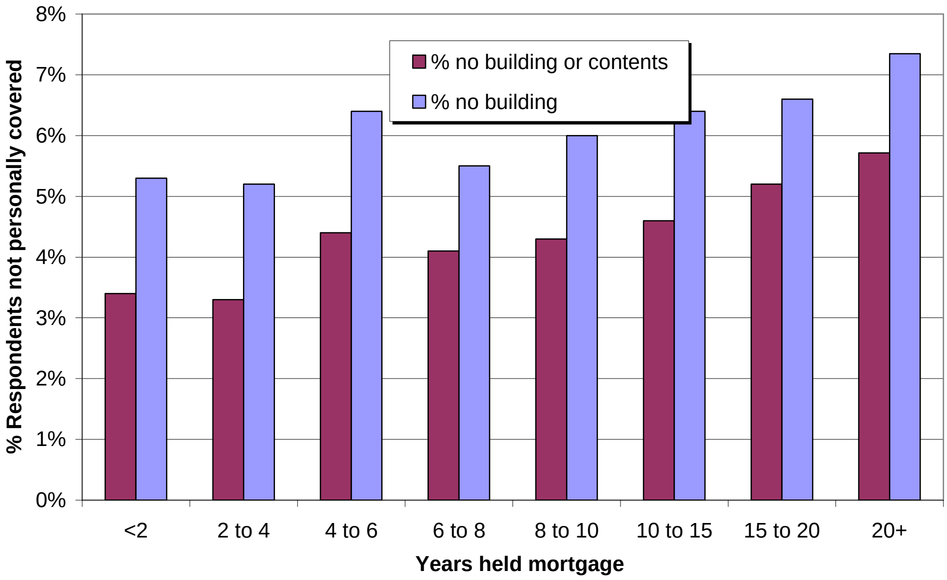

Figure 1: Non-Insurance by Years Held Mortgage,
Base: Mortgage holders (18+) of detached homes, Oct 2002 to Sep 2006
Source: Roy Morgan Research

Figure 2 shows how rates of non-insurance vary with the size of the respondents total outstanding loans.[7] There are a number of factors at work. Since those with large loans are also likely to have higher incomes the sample has been divided into household income categories. As we would expect, rates of non-insurance fall with higher incomes but the relationship between level of debt and non-insurance is not clear. This may reflect a number of conflicting influences. Those with greater debt are more exposed and have a greater need for insurance. This may explain why we see in some cases higher debt associated with lower rates of non-insurance.. Those with higher debt may also have lower disposable income and so be less able to afford to pay the insurance premiums.

[6] Note: The variable 'years held mortgage' will also be correlated with age, income and life stage among other factors related to non-insurance
[7] This includes the mortgage and other loans

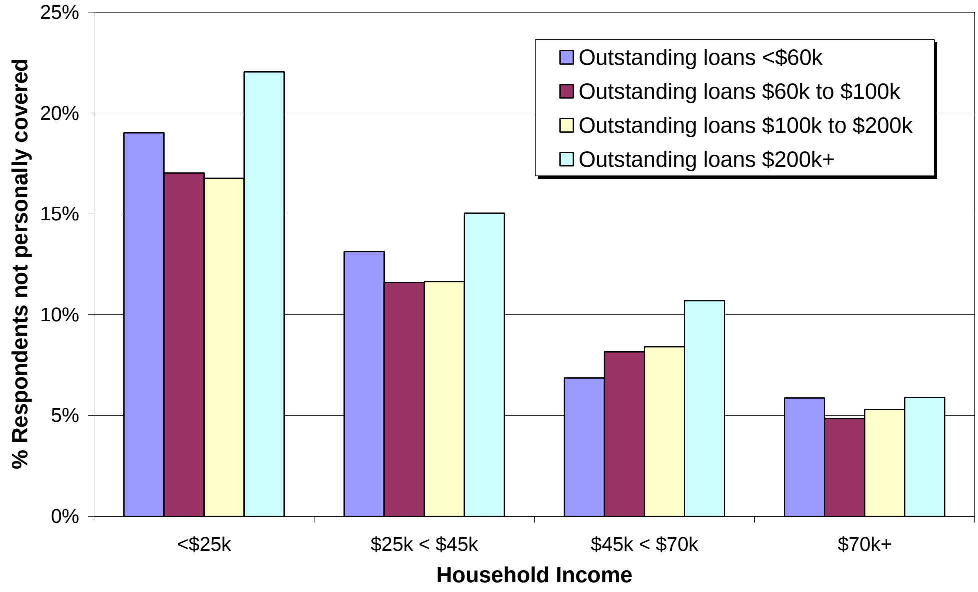

Figure 2: Non-Insurance (building or contents) by Income and Loans Outstanding,
Base: Main income earner, mortgage holders (18+) of detached homes 2002-2006
Source: ROY MORGAN RESEARCH

Figure 3 shows how the rate of non-insurance changes with perceived home value. The chart indicates those with the lowest perceived home value are the least likely to insure. This would most likely appear to reflect an income constraint i.e. those with lower perceived home value are also those with lower incomes. Of note, there is a "hump" around the $400-500K income range. This may reflect a grouping of people who have sufficient income and wealth and choose to self-insure.

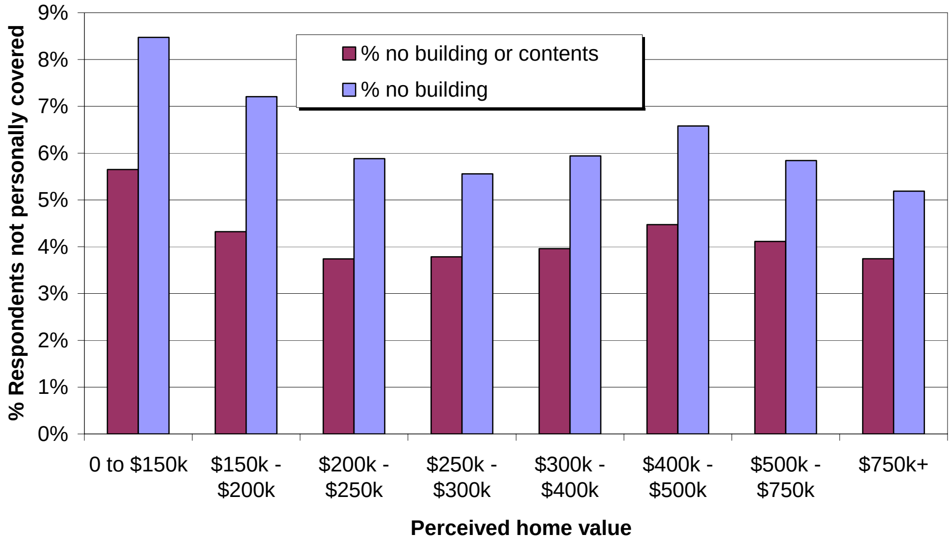

Figure 3: Non-Insurance by Perceived Home Value
Base: Mortgage holders (18+) of detached homes, Oct 2002 - Sep 2006
Source: ROY MORGAN RESEARCH

Figure 4 shows how non-insurance (in terms of contents insurance cover) relates to the level of household income and total amounts[8] in saving and other investments. Although those with lower levels of savings are more exposed, there is a distinct negative relationship between amount saved and rates of non-insurance at all levels of household income. This might be attributed to two factors. Firstly, those with greater savings may have more assets to insure. Secondly, we might expect that the level of saving (and perhaps awareness of the level of saving) might be strongly correlated with a conservative attitude towards risk management and insurance. A concerning implication of the negative relationship between savings and the rate of non-insurance is that the people who are least protected by other savings are the least likely to insure.

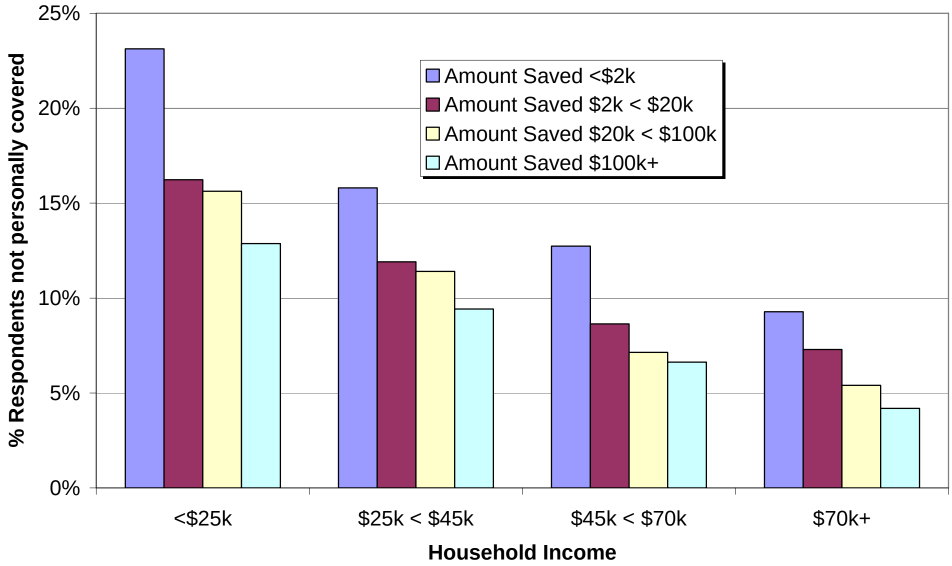

Figure 4: Non-Insurance (contents) by Household Income and Savings,
Base: Main income earner, mortgage holders (18+) of detached homes
Jan 2002- Dec 2006 Source: ROY MORGAN RESEARCH

We would expect that a person's or household's income is a key factor in determining insurance. All else being equal, we would expect people with lower income to be less likely to afford and thus purchase insurance. The results of Figure 2 and Figure 4 support this view. Income will however, also be closely correlated with other determinants of insurance. Those on lower incomes are more likely to be young, single and renters.

To attempt to control for some of these other factors, rates of non-insurance for respondents of middle age and above (35+) and with a mortgage in a detached house were examined. Given this group's age and housing situation we might reasonably expect these respondents (assuming they are risk averse) to have significant building and content assets and so desire both contents and building insurance if it were affordable. As shown in Figure 5 below, consistent with the problem of affordability of insurance, there is a marked negative relationship between income[9] and rates of non-insurance for contents, building and building and contents insurance combined.

[8] This incorporates direct investments, managed investments, superannuation and bank accounts
[9] In the example shown we use respondent income. Analysis by household income is also available but is heavily correlated with living arrangements (e.g. it is more sensitive to whether a household has more than one income earner)

The results in Figure 5 also support the proposition that demand for contents insurance is more elastic than that for building insurance.

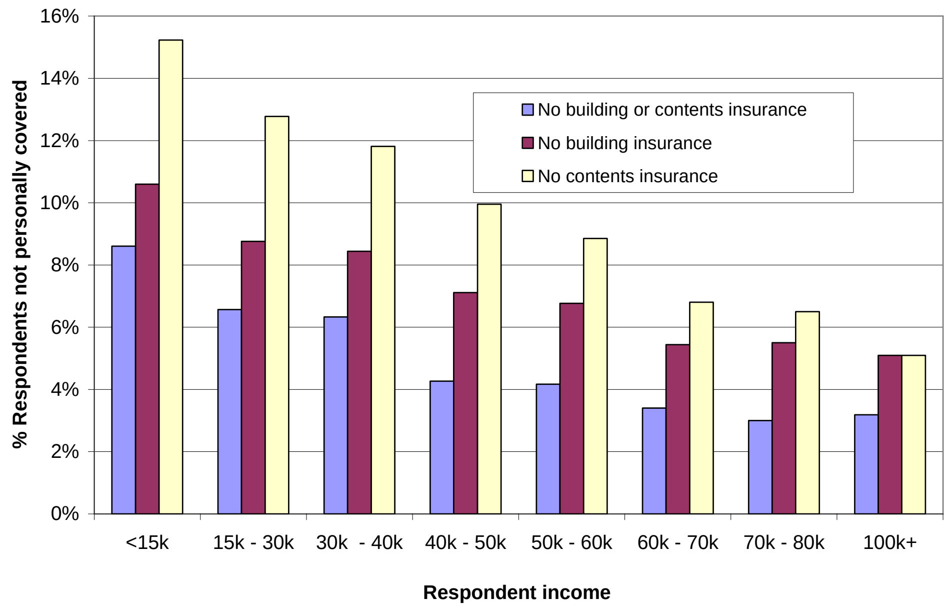

Figure 5: Non-Insurance and income

Base: Age 35+ with mortgage on detached house in capital city, Jan 2002 - Dec 2006, Source: ROY MORGAN RESEARCH

KEY FINDINGS: FINANCIAL POSITION

A household's financial position including their savings, outstanding debts and income are closely related to rates of non-insurance.

Non-insurance is significantly lower for those with a mortgage than for those who have paid off their home. Furthermore, the rate of non-insurance appears to increase with the age of the mortgage. A concerning finding is that those with fewer savings are also those more likely to be non-insured.

Affordability appears to be a key driver of non-insurance. A clear relationship between income and non-insurance is evident. Having conducted some controls for house type and tenure and basic demographic factors, rates of non-insurance for building cover and to a greater extent contents cover decline with higher incomes.

4.4 Demographics

LIFE STAGE AND AGE

We might expect the rate of non-insurance to be significantly related to life stages and age. As people age and move through the stages of life we would expect them to be more likely to take out insurance as they generally have greater disposable income to pay for insurance and more assets to insure but lower future earning capacity to replace those assets in case of loss.

The rate of non-insurance for contents insurance by life stage is shown in Figure 6 below. A number of features are apparent. Firstly, rates of non-insurance appear to decline as families progress through the life-stages of being young and married with no children, to being married with children to being older married and no longer having children at home. Secondly, the results lend support to the proposition that affordability of insurance is a problem. In each of the married categories the rates of non-insurance are higher for households of lower income. Perhaps the most striking feature is the high rate of non-insurance among young single parents particularly in comparison to the rate of insurance among similar aged married parents.

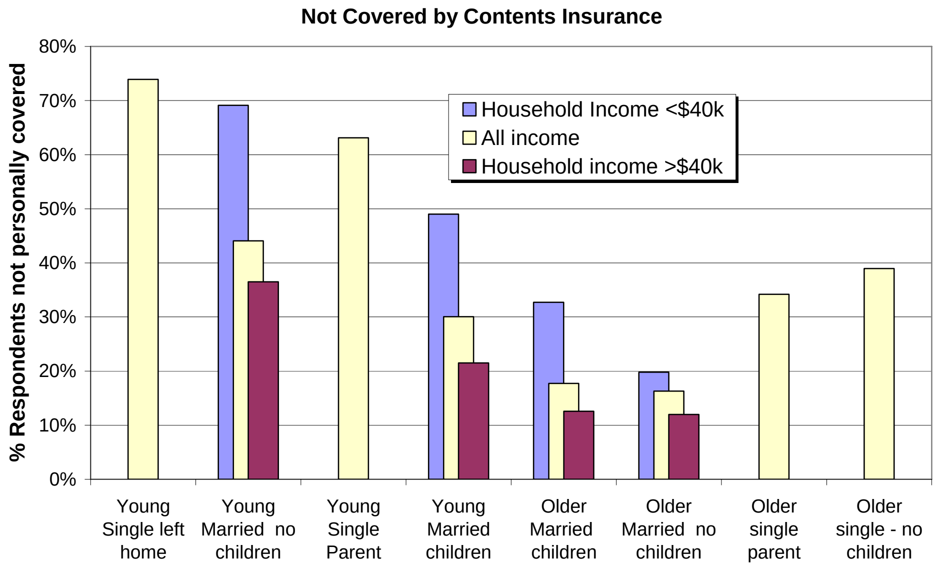

Figure 6: Non-Insurance (contents) by life stage
Base: Aged 18+, Oct 2001- Nov 2006
Source: ROY MORGAN RESEARCH

Life stages are closely related to home type and tenure. Smaller and younger families tend to rent and/or live in apartments and thus tend to have higher rates of non-insurance. To control for this, the relationship between living arrangements and non-insurance was examined for those who own or are paying off detached houses. The results, shown in Figure 7 are less pronounced but very similar to Figure 6 above.

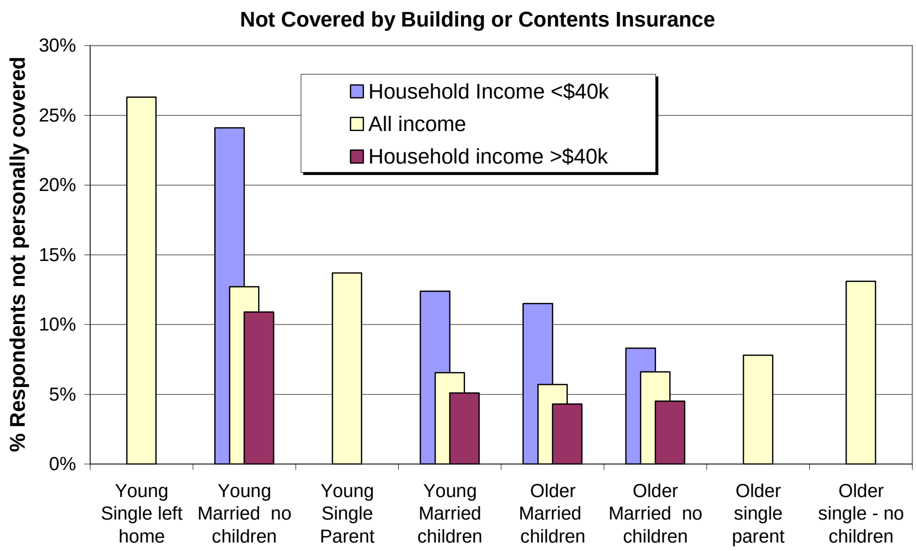

Figure 7: No building or contents insurance by living arrangements
Base: Main income earners (18+), dwelling is detached house owned
or being paid off, Jan 2002 – Dec 2006, Source: ROY MORGAN RESEARCH

The relationship between non-insurance and age is more pronounced than that between non-insurance and life-stage. Figure 8 shows rates of non-insurance for contents insurance for all adults aged over 18.[10] Not surprisingly, non-insurance is significantly higher for the young and the rate of non-insurance falls with age up to the 50+ age group.

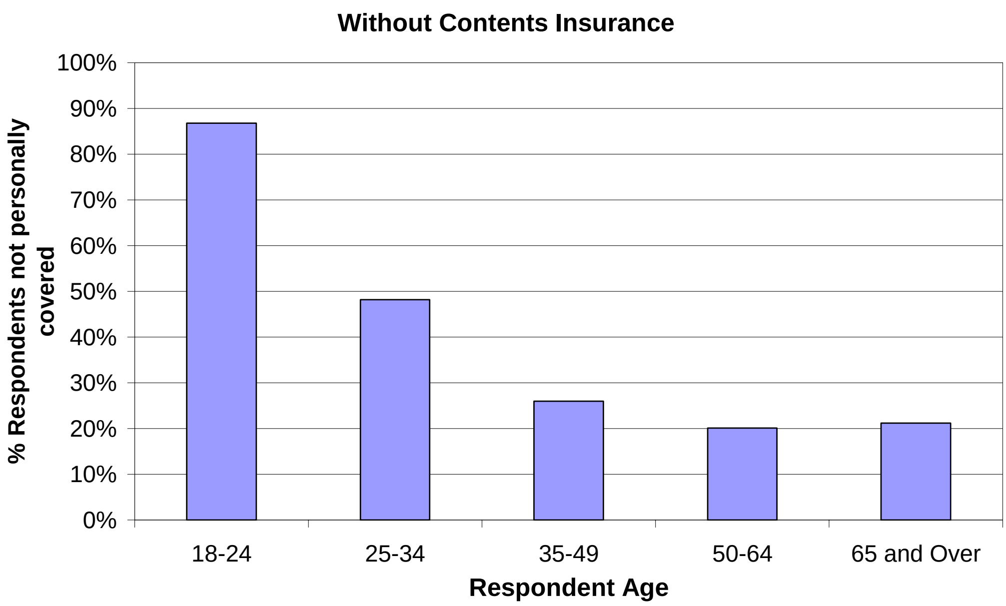

Figure 8: Non-Insurance (contents) and age
Base: Aged 18+, Oct 2001- Nov 2006
Source: ROY MORGAN RESEARCH

[10] Note, this sample is not restricted to main income earners and so rates of non-insurance may appear high

We might expect that a lot of the difference in age is driven by changes in home tenure. Figure 9 shows non-insurance among those respondents who have a mortgage on a detached house. The graph also shows that non-insurance initially declines with age but then increases for the age 50-64 and 64+. This might reflect an affordability issue as people attempt to save money in retirement. These higher rates of non-insurance for people in or nearing retirement age was also present when the sample was restricted to those owning a home.

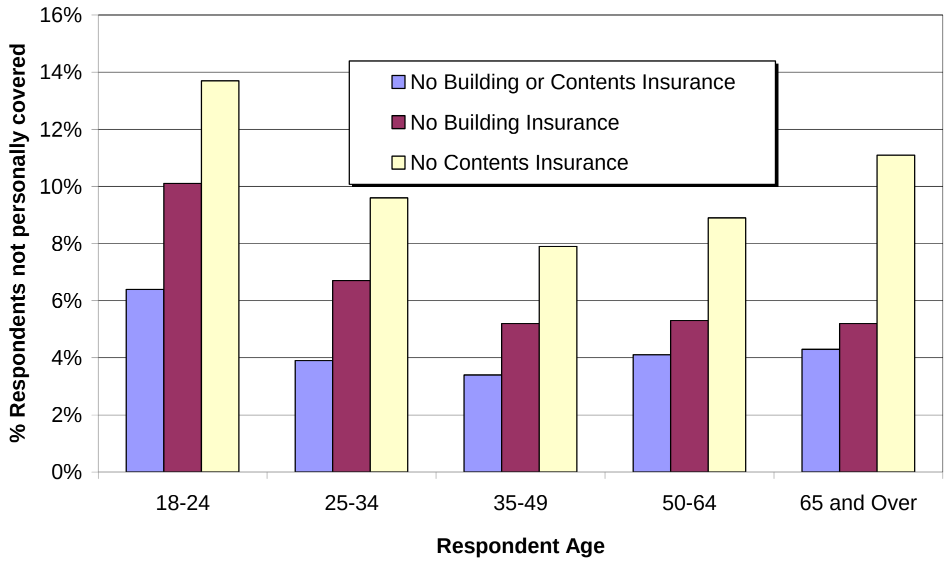

Figure 9: Non-Insurance by age group,
Base: Mortgage holders, 18+, of detached homes Jan 2002 – Dec 2006
Source: ROY MORGAN RESEARCH

LOCATION

The rate of non-insurance appears to be higher in cities than in country areas. Figure 10 shows rates of non-insurance by whether respondents are in capital cities or country areas for contents insurance among all adults, contents insurance among all main income earners living in a home that is owned and for building and contents insurance among those with a mortgage on a free standing house.

The lower rates of non-insurance in the country do not appear to be explained by other demographic factors such as house type or tenure. The pattern is consistent for owners of homes and is consistent across all states of Australia. It is possible this difference reflects a greater level of risk aversion outside of capital cities or the different nature of risks or that people in country areas have a higher ratio of assets to disposable income.

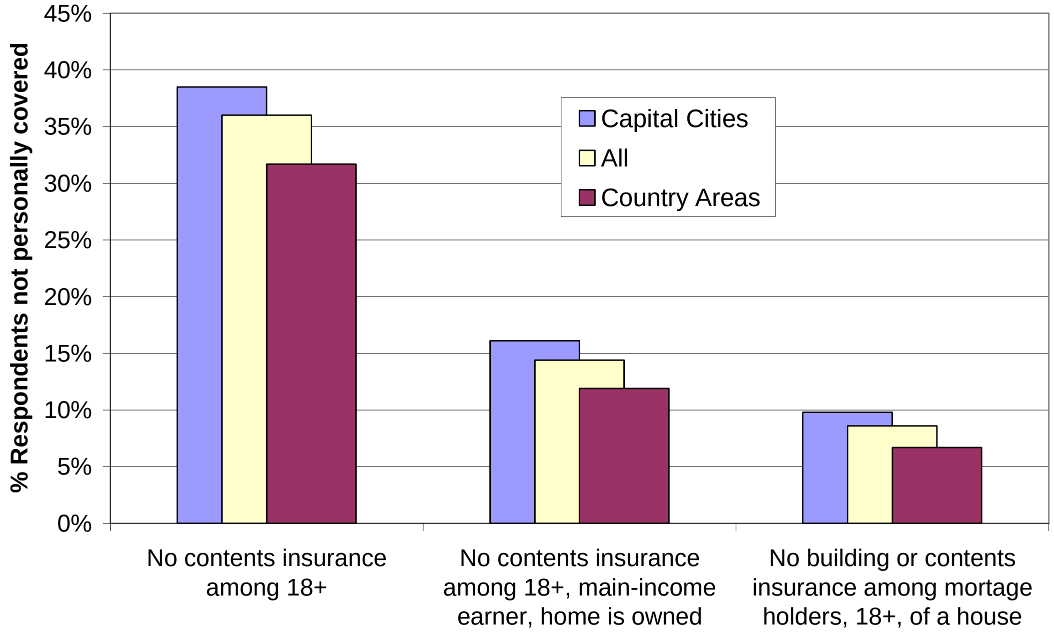

Figure 10: Non-insurance by City / Country living

Base: For no contents insurance Oct 2001 - Sep 2006,
For no building or contents insurance Jan 2002 - Dec 2006, Source: ROY MORGAN RESEARCH,

The Roy Morgan Research data also allows analysis by different regions within each state. In all, there are 61 regions across the six states and two territories. Figure 11 shows the variation in non-insurance across the region for building and contents insurance among those main-income earners who live in a house that is owned. There is substantial variation in the rates of non-insurance.

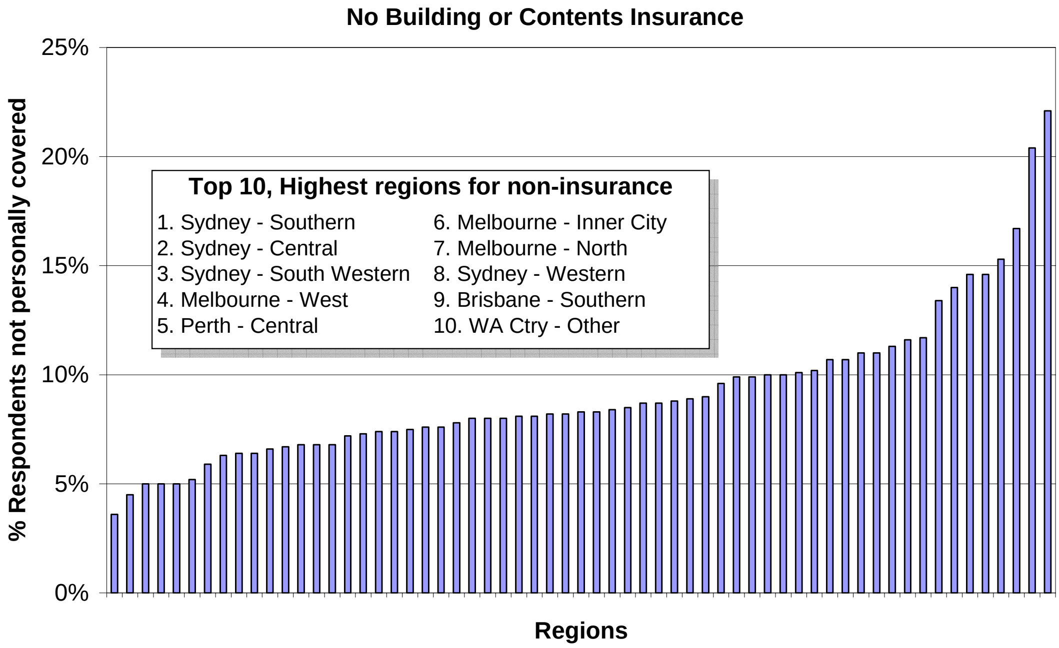

Figure 11: Non-insurance by Region

Base: Main income earners, 18+, Dwelling is detached house
owned or being paid off, Jan 2002- Dec 2006, Source: Roy Morgan Research

Sydney and Melbourne between them have seven of the top 10 regions ranked on non-insurance. There are however, significant variations even within a city. The Sydney regions described as 'Western', 'Southern', 'Central' and 'South Western' have all consistently been ranked in the top-10 regions in terms of non-insurance. In contrast, the Sydney region 'Northern' has generally had a much lower rate of non-insurance than average.

COUNTRY OF BIRTH

A person's country of birth is correlated with a number of factors that may be determinants of insurance ownership. In particular, country of birth is correlated with income and home ownership, age and city living.

Figure 12 shows rates of no contents insurance by country of birth. The rates are higher in respondents who were born in Asia or other non-western countries. To address concerns of problems of cross-correlations, the sample is filtered by those who are the main income earner, live in cities and are aged 35+. Despite these controls, there is a clear gap in the rate of contents insurance between those born in Australia and western nations and those born in Asia and elsewhere. Of interest is that this gap closes significantly for higher household incomes.

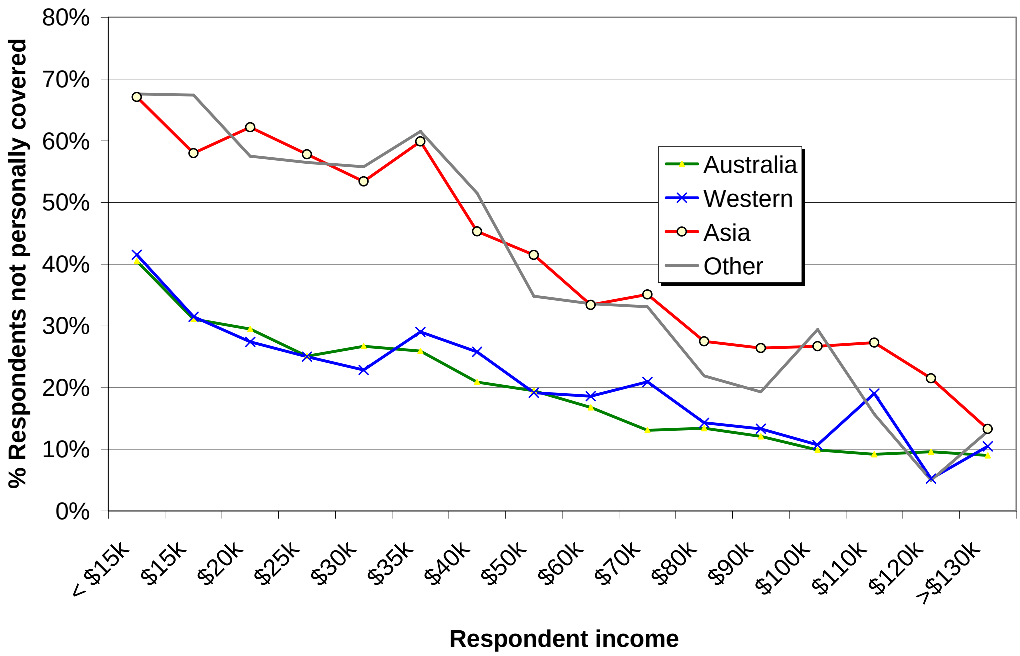

Figure 12: Non insurance (contents) by Country of Birth
Base: Main income earner aged 35+, living in capital city,
Jan 2002 - Dec 2006, Source: Roy Morgan Research

A possible explanation for this relationship is that there may be varying rates of home ownership by country of birth. To test whether this might be the case another query was conducted on those respondents who were paying off their home (a detached house). The results, shown in Figure 13, are similar – again non-insurance is significantly higher for those born in Asian and other non-western countries and the non-insurance gap closes with income.

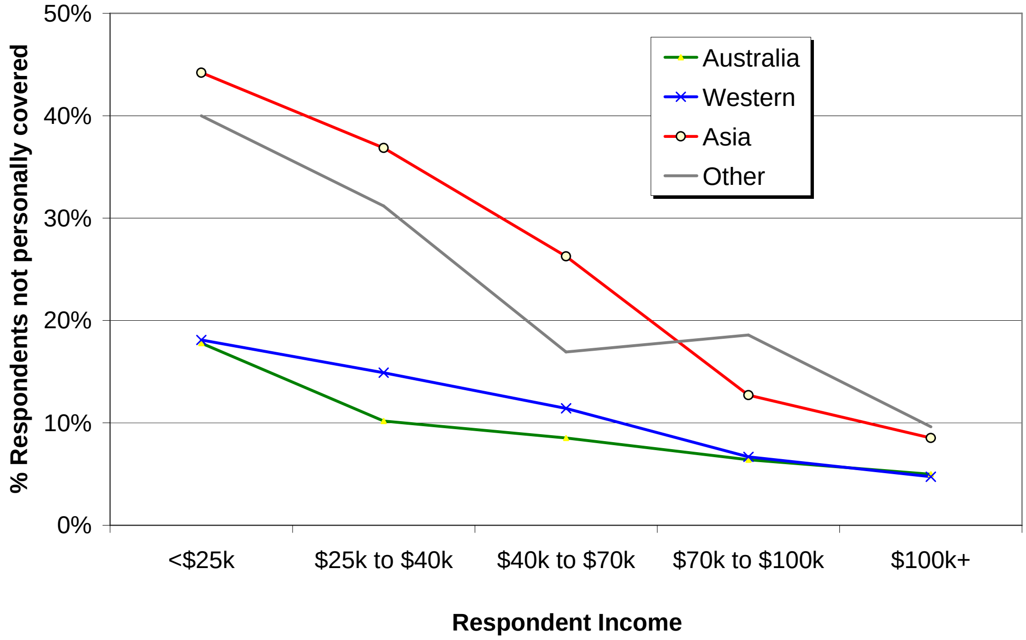

Figure 13: Non insurance (contents) by Country of Birth
Base: Mortgage holder, aged 35+, living in detached house in capital city, Jan 2002- Dec2006, Source: Roy Morgan Research

ROY MORGAN VALUES SEGMENTS

The Roy Morgan Values Segments is a segmentation methodology developed in conjuction with Colin Benjamin of The Horizons Network that groups the Australian population according to similar preferences, needs or motivations. The values segments are based on psychographic data that provides information on the deeper drivers of choice by examining attitudes as well as demographic details data such as age, income etc.

The segments are described in detail in Appendix A2. Figure 14 shows how non-insurance varies across these values segments. As shown there is significant variance in rates of non-insurance across the values segments. Perhaps unsurprising the segment labelled 'Look at Me' shows the highest rates of non-insurance. This group is described as those associated "with active, unsophisticated behaviour, seeking fun and freedom away from the family and being part of the 'in-crowd' ".

The values segments are highly correlated with other major determinants of non-insurance including age and tenure. Also shown in Figure 14 are the rates of non-insurance for the value segments when the group is filtered by main income earners age 35+ and to those having a mortgage. Even with these filters, there is significant variation across the values segments.

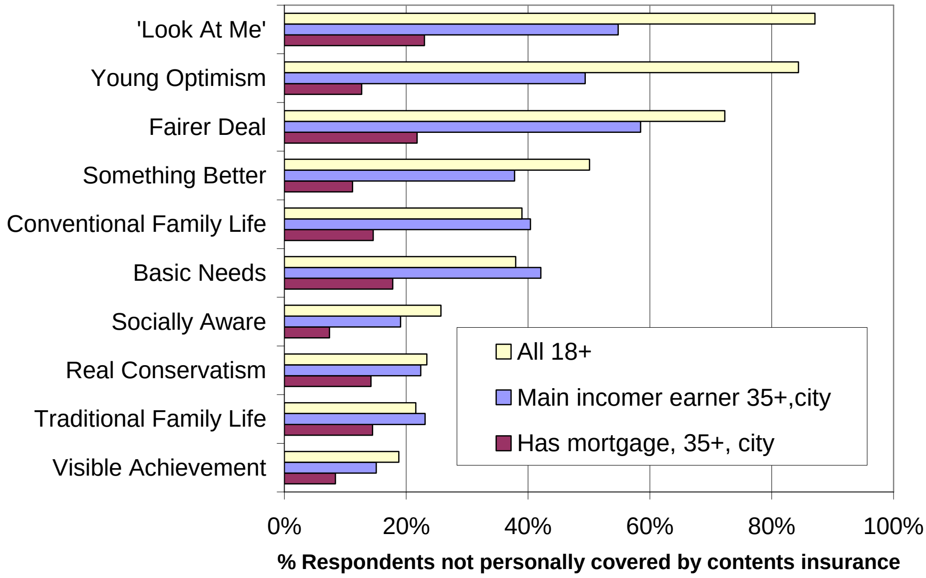

Figure 14: Non-insured (contents) by Roy Morgan Value Segment
Base: For all 18+ Oct 2005 – Sep 2006
For other bars Jan 2002 – Dec 2006, Source: Roy Morgan Research

LEVEL OF EDUCATION

Figure 15 shows rates of non-insurance for respondents who have a mortgage on a detached house. It shows the rate of non-insurance decreasing with high levels of education. This is not surprising given that education and income are closely related.[11] That the rate on non-insurance for contents insurance shows much greater variation than for buildings insurance suggests that the effect is largely driven by issues related to income.

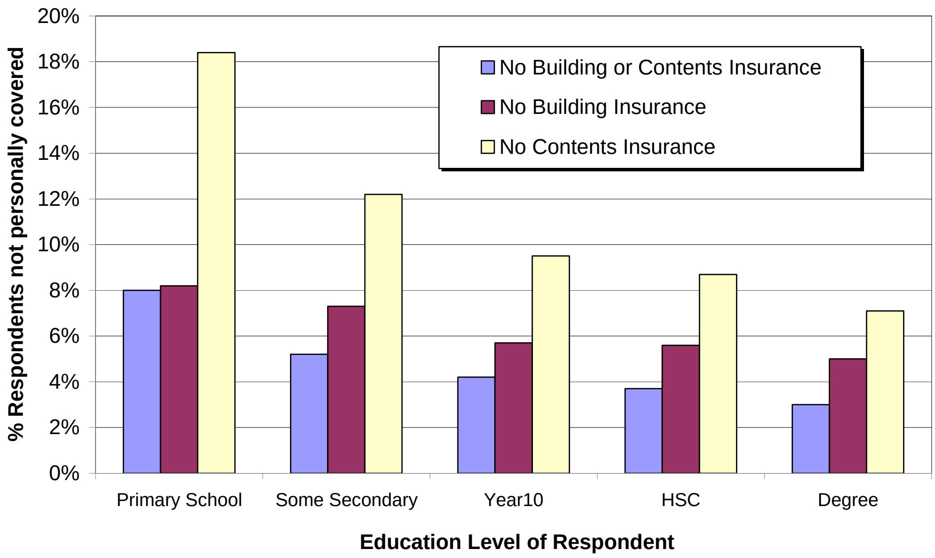

Figure 15: Non-Insurance by Respondents Education,
Base: Mortgage holders, 18+, of detached homes Jan 2002 – Dec 2006
Source: Roy Morgan Research

[11] Potentially a regression analysis on unit record data could isolate income and educational effects

WORK STATUS

Figure 16 shows rates of non-insurance by work status for those holding mortgages. Again consistent with issues relating to affordability those with greater employment are less likely to be non-insured. Of note is the relatively high rate of non-insurance for retirees particularly for contents insurance. This is not observed when the sample is broadened to include all those main-income earners living in a home that is owned or being paid off and may reflect an affordability issue for those who enter retirement with a mortgage.

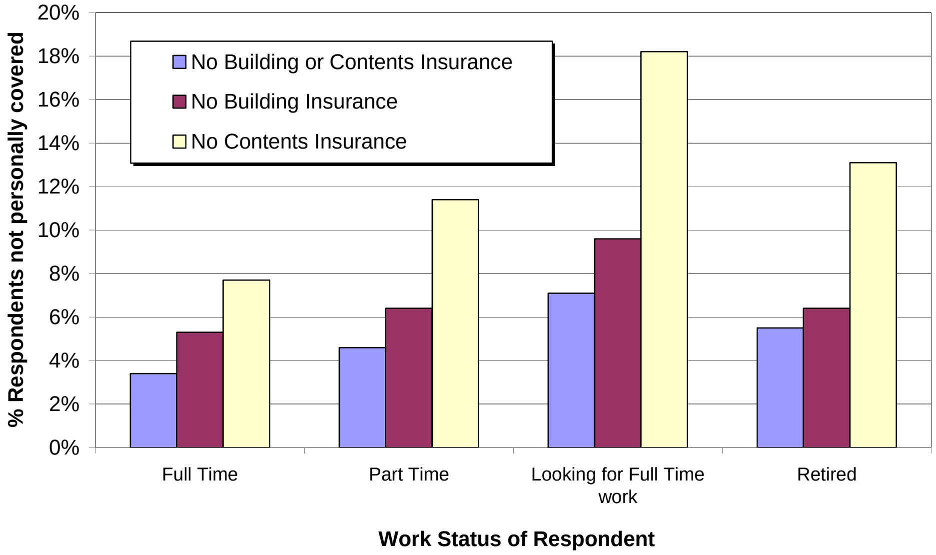

Figure 16: Non-Insurance by Respondent's Work Status,
Base: Mortgage holders, 18+, of detached homes Jan 2002 – Dec 2006
Source: Roy Morgan Research

OTHER

Rates of non-insurance were also examined by size of household. There were no significant differences to note. Since size of household is closely related to life-stage and to some extent incomes, it would be difficult without a multi-variate analysis to isolate any effects of household size.

The Roy Morgan Single Source contains many other variables that were not examined but might be considered in further study. They include additional demographic variables (e.g. occupation type and industry, marital status), attitudes (including responses to "I like to be well insured"), activities and interests and a range of other behavioural variables.

KEY FINDINGS: DEMOGRAPHICS

Non-insurance is closely correlated with many demographic variables including life-stage, age, location, education, and country of birth.

In summary, non-insurance tends to be associated with those:

- at earlier stages of life
- living in cities and in particular regions within cities
- born in non-western countries
- in less risk averse 'value' segments
- with lower levels of education
- without full-time work

Many of these characteristics are highly correlated with each other and with income and other measures of financial position. The results are consistent with people weighing up the costs and benefits of insuring and insuring primarily when they have significant assets to insure and sufficient funds to do so. Of concern is that non-insurance appears to be higher for many demographic segments, such as retirees with mortgages and single parents, that are most exposed in case of loss.

5 NON-INSURANCE OVER TIME

Given the frequency at which new observations are obtained and the speed at which these are made available, the Roy Morgan Research appears a good choice for analysing changes in non-insurance over time. The ABS HES data which is conducted every five years can also be used to analyse changes in rates of non-insurance over longer time periods.

To analyse changes over time, four non-insurance indices were developed from the Roy Morgan Research data and examined. The four non-insurance indices: two for building and two for contents are described in Table 5 below. Rolling 12 monthly data, updated quarterly is used.

Table 5: Indices of non-insurance

Index	Description
No ci, 18+	Proportion of adult population (aged 18+) who are not covered by contents insurance
No ci 25+	Proportion of adult population who are aged 25+, the households main-income earner, not boarders or living in shared arrangements and who are not covered by contents insurance
No bi	Proportion of adult population who are the main income earners, are living in house which their household owns and are not covered by building insurance
No bi or ci, paying off	Proportion of adult population who personally have a mortgage on their home who are not covered by building or contents insurance

The four indices are tracked in Figure 17 below. The rate of non-insurance for contents in Australia has trended upwards whereas the non-insurance indices for building insurance have been reasonably stable. As described in the previous sections, there are many other factors correlated with non-insurance that might change over time. We would expect drivers of changes in rates of non-insurance to include changes in demographic trends including home tenure, incomes and life stage. A likely candidate for the increase in non-insurance in relation to contents insurance is the increased use of rented accommodation and apartment dwelling.

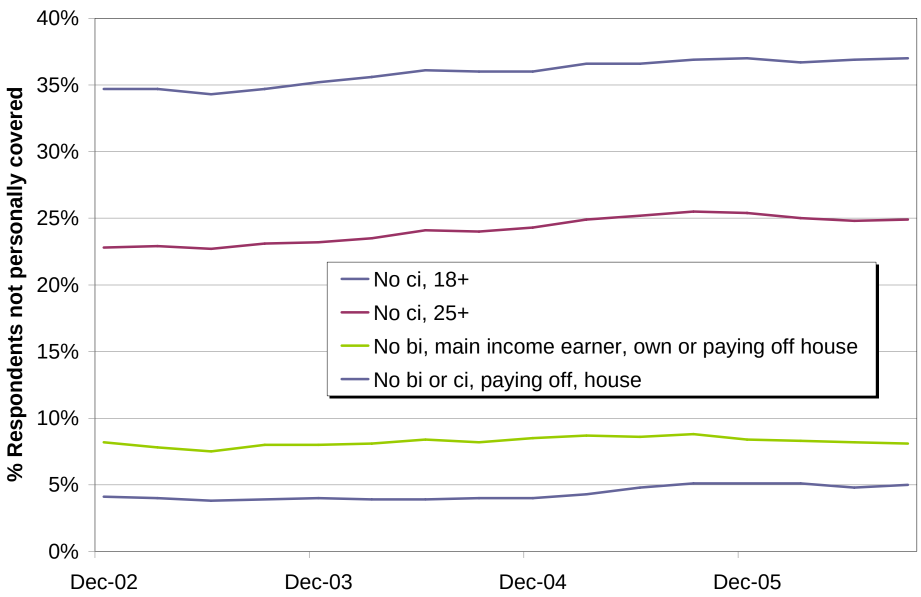

Figure 17: Non-insurance over time,
(Source: Roy Morgan Research 2002-2006 - see Table 5 above for details)

6 NON-INSURANCE AND INSURANCE TAXES

6.1 Introduction and background

In Australia, there are three effective "taxes" that are commonly applied to general insurance product sales.[12] These are:

- Stamp Duty – which applies to all general insurance products
- Fire Service Levy (FSL) – applied to home insurances. The FSL is used to raise funds for fire brigade services (ranges from 0 per cent to 20 per cent depending on region)
- The 10 per cent Goods and Services Tax (GST)

These taxes are applied on each other resulting in a compounding effect such that for some households the total premium is 45 per cent higher than would be the case in a non-taxed environment.

In NSW there is an additional "tax" related to premium volumes. The Insurance Protection Tax (IPT) Act 2001 requires insurers contribute amounts proportionate to their market share. This IPT may add about an additional one per cent on home insurance premiums. Although the Act stipulates insurers "must not charge …any amount that is directly attributable to that tax" it would be inconsistent with economic theory if the cost was not passed on to consumers.

The rate of FSL and stamp duty varies greatly by state. A summary of the taxes for home insurance and their cumulative effect is reported in Table 6 below.

As at April 2007 the effective taxes on home insurance were:

Table 6: State Taxes on home insurance premiums

Jurisdiction	NSW	NT	ACT	QLD	WA	SA	TAS	Vic Metro	Vic Country
FSL	19%	0%	0%	0%	0%	0%	0%	19%	20%
GST	10%	10%	10%	10%	10%	10%	10%	10%	10%
Stamp Duty	9%	10%	10%	7.5%	10%	11%	8%	10%	10%
IPT	1%								
Cumulative Total	44%	21%	21%	18%	21%	22%	19%	44%	45%

Source: Insurance Council

These taxes have gained significant attention. Opponents of the taxes point out that general insurance, and in particular home based insurance, is very heavily taxed relative to international standards and relative to other goods and services.

The CIE (2005) provided a comparison of international differences in insurance taxes and noted that:

> "Taxes on property insurance in most Australian states and territories are higher than in the majority of the comparator countries"; and
>
> "International taxes as a proportion of premiums are as low as 2 per cent in Ireland and Singapore and 2.4 per cent in the USA (California)." CIE (2005, pg. 24)

[12] Insurance providers, like other companies pay other forms of company related taxes.

The taxes are also very high compared with that of other goods and services within Australia. As noted by CIE (2005) the taxes on insurance in most states are higher than those applied on 'bads' such as cigarettes and alcohol.[13]

THE SOCIETAL COST OF INSURANCE TAXES

Taxes on insurance (as with taxes on other goods and services) may impose a cost to society by distorting purchasing behaviour with regard to insurance. The size of the cost to society is directly related to how much behaviour is distorted. It has been generally argued (and there appears little disagreement) that insurance taxes are relatively inefficient taxes that impose a large cost on society. It is however, difficult to assess the extent of the distortion and thus the cost imposed by insurance taxes.

There are a number of distortions of behaviour that taxation on insurance premiums may cause. In responses to higher taxes people may simply not purchase insurance, in effect choosing to self-insure. In this case, all else being equal, we would expect to see a low take-up of insurance when and where insurance taxes are higher. Such a hypothesis might be tested with data sets such as the Roy Morgan Research data and the ABS HES.

People may also respond to higher insurance taxes by reducing their level of cover or by increasing their excess thereby reducing their insurance premium. Some evidence for this was found in an audit conducted following the WA removal of FSL. The audit (Sigma Plus Consulting 2004) concluded the costs savings of the reduction in insurance were passed on and as a result of the cost savings, consumers increased their levels of cover.

A third distortion is that consumers may seek alternative methods to avoid the taxation on insurance. For example, there is some potential for consumers in Australia to do this through use of Direct Offshore Foreign Insurers (DOFIs).

All else being equal we would expect these distortions to be greater the more sensitive supply and demand are to changes in price.[14] It is generally thought that supply is very price sensitive particularly in the long term. This will be the case if the marginal cost of providing an insurance cover does not increase as industry output increases. There appears to be little reason for costs to increase with increased coverage. To the contrary there appear to be economies of scale in insurance operations and benefits to greater volume in risk pooling (CIE 2005).

There has been limited research on the sensitivity of demand to price changes. Grace, Klein and Kleindorfer (2002) estimated the elasticity of demand for home insurance products in the US and found demand to be quite elastic.[15] CIE (2005) report on a range of organisations have expressed the view that the consumer demand is sensitive to price and thus insurance taxes are relatively inefficient.

To date there has been limited direct evidence as to the extent of the distortion caused by insurance taxes.

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[13] Cigarettes and alcohol are described as 'bads' as they are associated with costs to society over and above those borne by the user and reflected in their costs of production.

[14] Much of the existing arguments and evidence on the sensitivity of supply and demand to price are documented in the CIE report (CIE 2005).

[15] The CIE report also provides some evidence on the price elasticity of demand for a firm (i.e. sensitivity of consumers to changes in prices charged by individual firms). As taxes are applied industry wide the firm's price elasticity of demand is of limited relevance to a debate on taxes.

The results of the NRMA survey 2001 provide some support for insurance taxes being a cause of non-insurance. Consistent with the effect of higher tax rates, lower rates of contents insurance were recorded in NSW and Victoria than in Queensland and other states.[16] The differences however, were not significant enough to draw comment by the author. The NRMA 2001 survey also asked those not insured why they did not insure and whether a reduction in taxes would make them more likely to insure. Of those without building or contents insurance, 22 per cent listed "Insurance is too expensive" as the primary reason (only one reason could be given) and 30 per cent stated they would be "much more likely" to purchase insurance if taxes were reduced.

6.2 Analysis of insurance taxes

The Roy Morgan Research and the HES data can potentially be used to analyse the effect of taxes by comparing rates of insurance across jurisdictions and across time. As documented in Table 6 above, there is significant variation in the level of taxes across states.

Since the beginning of 2002 (for which we have the Roy Morgan Research data), there have been changes in insurance taxes in NSW and in Western Australia. In NSW there have been recent changes to stamp duty taxes. NSW state stamp duty was reduced from 10 per cent to five per cent from 1 August 2002 but then later increased from five per cent to nine per cent from 1 September 2005.

In Western Australia, a more significant change occurred when the fire services levy (FSL) was phased out over 2003. The levy which was typically 19 per cent for house and contents was removed for policies written after 2003. The FSL was phased out over a year so an annual policy would only be proportioned the FSL for the period of the year that it covered. The removal of FSL was partially offset by a small increase in stamp duty from eight per cent to 10 per cent as at 1st July 2003.[17]

There have also been a number of notable changes in years to 2002 that can be potentially examined using the ABS HES data:[18]

- In South Australia on 1 July 1999, the insurance based levy for fire brigade funding was abolished and replaced with a broad based system
- In the ACT from 1 July 2000 an insurance based levy was abolished
- In Queensland in 1985 an insurance based levy for funding fire and emergency services was replaced with an Urban Fire Levy Scheme

ANALYSIS OVERTIME

Using the Roy Morgan Research data, the removal of FSL in Western Australia provides most scope for analysis. The change in NSW was relatively small and occurred at a time associated with change in the industry including the demutualisation of the NRMA and the fallout of the collapse of HIH. The shifts in stamp duty that occurred during this period do not appear to be significant enough to be detected.

The removal of FSL in Western Australia is more significant. Figure 18 shows the change in rates of non-insurance in Western Australia and the Australian average in the period following the removal of FSL in Western Australia.

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[16] See NRMA (2001) page 8
[17] The changes and the response of insurance company pricing to the changes are detailed in Sigma Plus Consulting (2004)
[18] Source: VACC (2003)

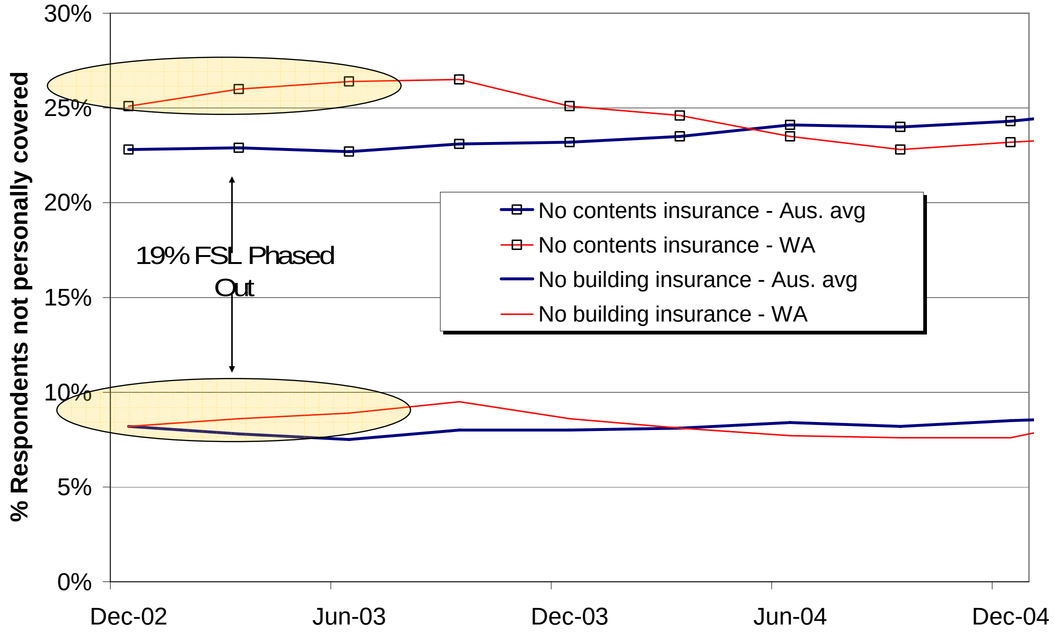

Figure 18: Rates of non-insurance following removal of FSL

Base: No building insurance- Main income earner 18+, paying off or own a detached house
No contents insurance- Main income earner 25+, not in shared type accommodation
Rolling 12 month data, Source: Roy Morgan Research

The survey data appears to support the view that removal of FSL resulted in lower rates of non-insurance. The apparent rates of non-insurance for building and contents insurance fell in Western Australia in 2004 while the Australian average was increasing. That the fall in non-insurance is more significant for contents insurance than for buildings insurance is consistent with contents insurance being more price sensitive.

While these results support the distortionary affect of taxes, there are some qualifications to note. There has been notable variation in the apparent rates of non-insurance over time particularly at a state level.

There is also some potential to test for changes over time using the HES data. The latest two HES surveys conducted in the periods July 1998 to June 1999 and July 2003 to June 2004. These two surveys straddle the removal of insurance based levies in South Australia and ACT. These are considered in the following section.

INTER-STATE DIFFERENCES

Both the Roy Morgan Research and the HES can be used to assess the relationship between taxes and non-insurance across states. In doing so it is important to consider interstate differences in other factors that may influence rates of non-insurance. Most significantly there are large differences in home tenure by state. These are shown in Figure 19 below. Of note, Victoria and South Australia have very high rates of home ownership (or conversely a low proportion of renters). Queensland in comparison has a relatively low rate of home ownership. As the take-up of both building and contents insurance is highly correlated with home ownership, all else being equal, we would expect to find Victoria and South Australia to have relatively low rates of non-insurance and Queensland to have relatively high rates of non-insurance.[19]

[19] Another interesting variation between States is the effect of having a mortgage on building insurance. Having a mortgage significantly increases the likelihood that a household will take out building insurance. The HES and Roy Morgan Research data suggest that the extent to which this occurs varies significantly by state, with the effect being most significant in Victoria and Tasmania and less so in Queensland and New South Wales.

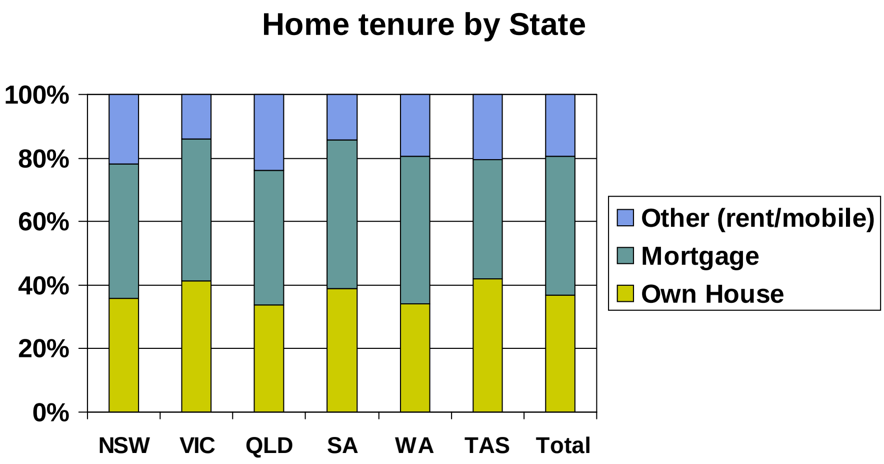

Figure 19: Home tenure by state,
Base: Detached houses
Source ABS 2003/2004

Fortunately housing tenure is easily controlled. It is possible to compare rates of non-insurance by state for dwellings that are owned (or being paid off) and those being rented.

Using the Roy Morgan Research, the rates of non-insurance by state where examined for two periods: the year ending December 2002 (prior to the removal of the FSL in WA) and for the year ending December 2005.

For the year ending December 2002, the relationship between insurance taxes and non-insurance for contents insurance is mapped in Figure 20 below. Mapped on this figure are the rates for non-insurance (contents) for all respondents aged 18+ and the rates for those respondents who own outright a home (not a flat). The relationship between non-insurance and taxes is clearly positive. Having controlled for home ownership the rate has been made stronger.

Figure 21 and Figure 22 show the relationship for the year 2005 for contents insurance and for building insurance. There appears to be a positive relationship between taxes and non-insurance in both. By 2005, the FSL had been removed from Western Australia for over a year. Some shift in the rate of non-insurance in WA towards the lower taxed group of states is apparent for contents insurance but much less so for building insurance. The gap between Victoria and NSW rates of non-insurance appears to be largely driven by the very low rates of non-insurance in Victoria by people with mortgages.

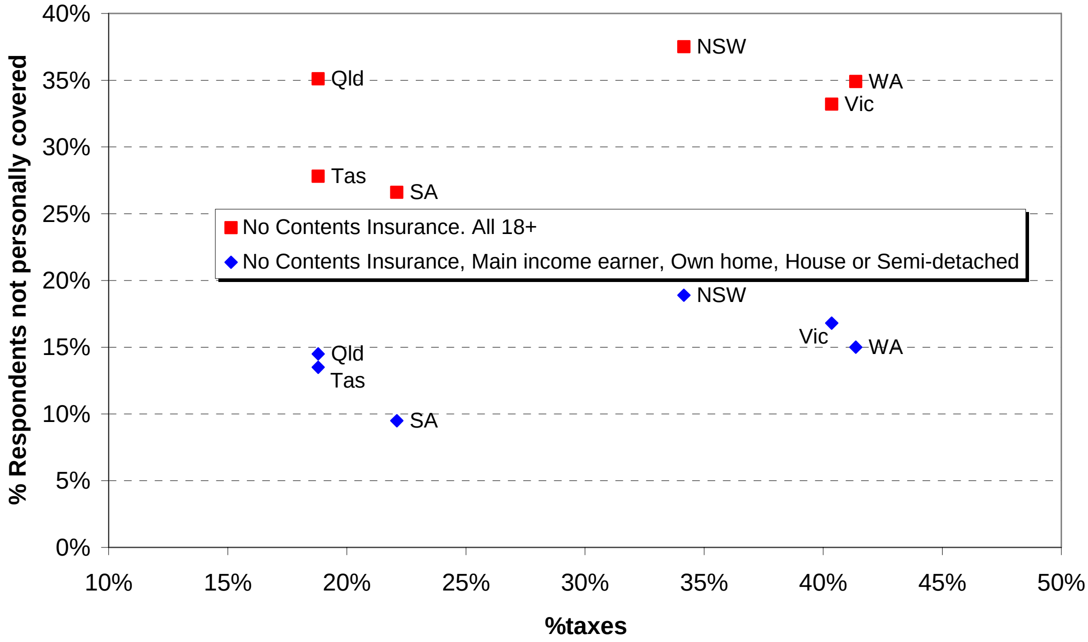

Figure 20: Non-insurance (contents) and State Taxes[20] in 2002

Base: Jan- Dec 2002, Source: Roy Morgan Research and Insurance Council

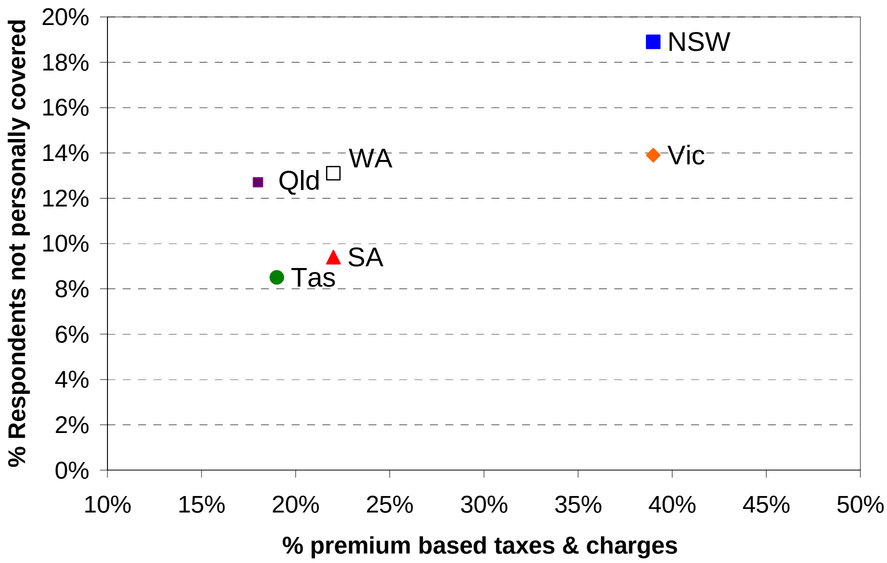

Figure 21: Non-insurance (contents) and State Taxes in 2005

Base: Main income earner aged 18+, dwelling is a house owned or being paid off, Jan – Dec 2005, Source Roy Morgan Research and Insurance Council

[20] Note: FSL rates in 2002 had to be estimated from a number of sources. For Victoria Metro 13%, (2003/04 rate: source VACC 2003), WA 19% (2003 rate, source Sigma Plus Consulting 2004), NSW 14% (2004 rate: source ICA)

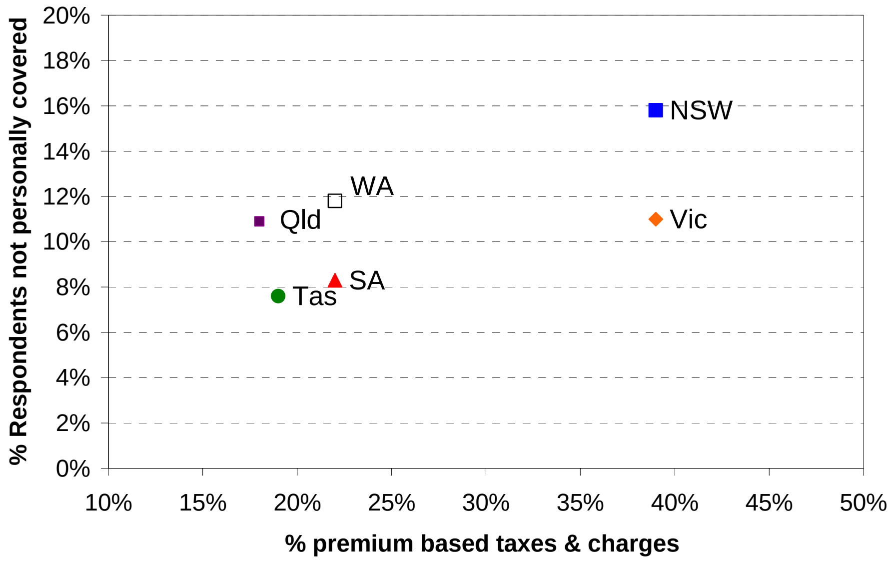

Figure 22: Non-insurance (building) and State Taxes in 2005
Base: Main income earner aged 18+, dwelling is a house owned or being paid off, Jan – Dec 2005, Source Roy Morgan Research

A similar analysis of the HES data from 2003/04 and 1998/99 also show a strong relationship between non-insurance and state taxes. Figure 25 shows non-insurance for contents insurance by jurisdiction. To control for house type and tenure the sample is based on dwellings which are detached houses and fully paid off. The chart shows the estimated per cent of households without contents insurance for the different jurisdictions. The shading highlights those jurisdictions that had levies on premiums for fire and emergency services. Notably the states with levies have higher rates of non-insurance than those without levies. Furthermore, whereas South Australia and the ACT had reasonably high rates of non-insurance in 1998/99, in 2003/04 after the services levies were removed they were in the group of states with the lowest rates of non-insurance. Note, at the time of the 2003/04 survey Western Australia was in the process of removing its FSL.[21] The results for building insurance are similar but due to lower sample sizes the standard errors are extremely high.

[21] The HES survey was continuously conducted from the year beginning July 2003 and with regard to insurance asked respondents to look at their expenditure back over the previous 12 months. The WA FSL was progressively removed such that no FSL was paid as of 1 January 2004. Thus the HES survey may have included some households who paid the full FSL and some who paid no FSL.

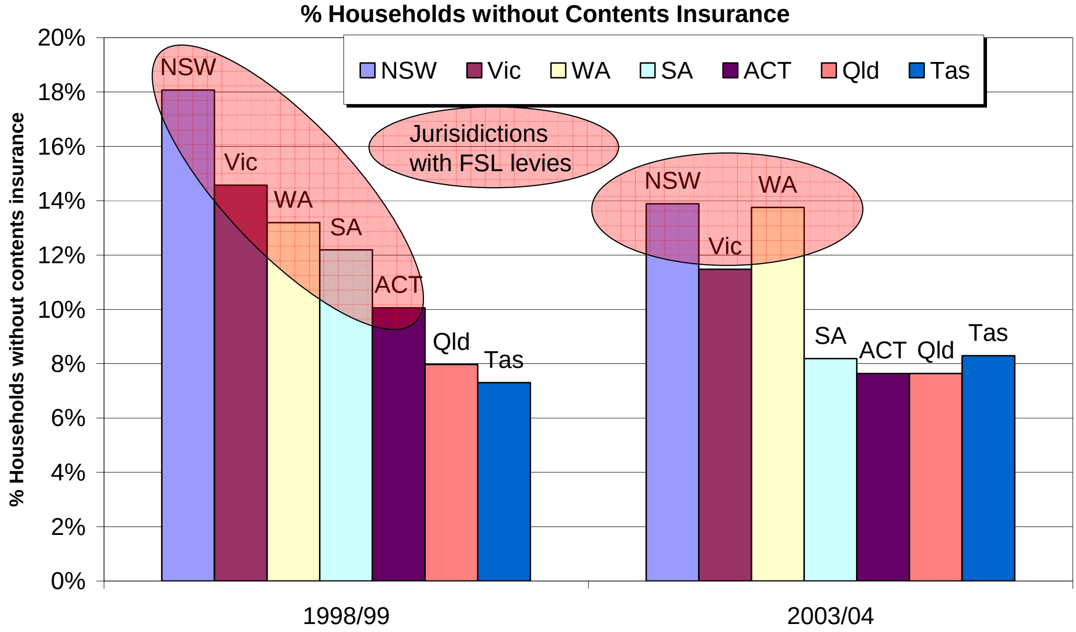

Figure 23: Non-insurance (contents) by State
Detached houses, Owned without Mortgage
Source: ABS HES 1998/99 and 2003/04
Note: Relative standard errors for ACT and Tas. are >25 per cent

To examine how the taxation policy varies by demographic factors, the states were categorised into states with FSL (NSW and Victoria) and states without FSL (South Australia, Queensland and Tasmania). Western Australia, due to its changing status was excluded from the analysis. To control for differences in tenure, the selection sample is based on those with a mortgage on a detached dwelling.

Figure 24 shows how the different rates of non-insurance vary between FSL and non-FSL states by household income. There is a notable difference at all levels of household income for both building and contents insurance. Consistent with contents insurance being more price sensitive, the gap between high and low tax states appears greater for contents insurance.

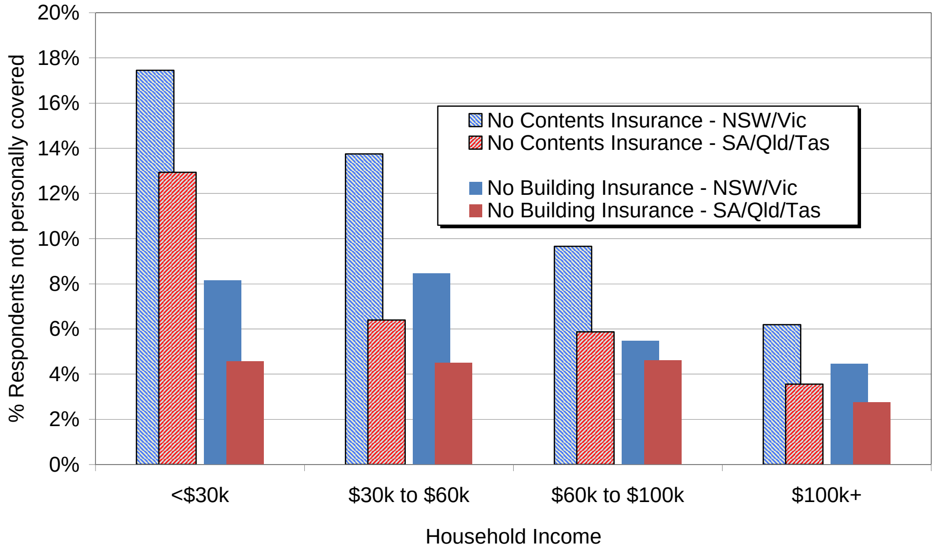

Figure 24: Non-insurance by Household Income

Base: 18+, Main income earners, mortgage holders on detached house, Jan – Dec 2005, Source: Roy Morgan Research

Figure 25 shows how the rates of non-insurance compare by age of respondent. The gap between rates of non-insurance is apparent for all age groups. Consistent with the issue of affordability for those holding mortgages, the difference is greatest for the young and for those of retirement age.

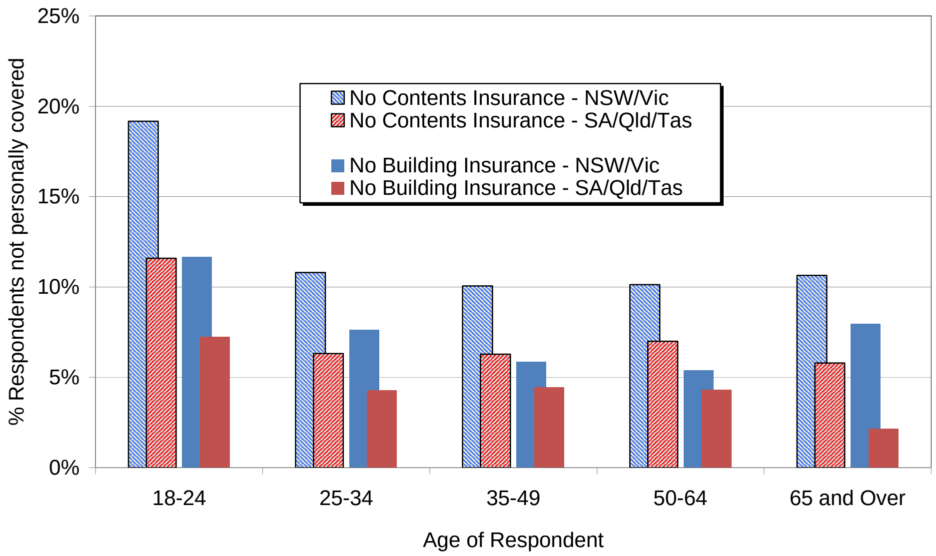

Figure 25: Non-insurance by Age of Respondent and State

Base: 18+, Main income earners, mortgage holders on detached house, Jan – Dec 2005, Source: Roy Morgan Research

KEY FINDINGS : INSURANCE TAXES AND CHARGES

State taxes on building and contents insurance in Australia are significant, varying between 18 per cent and 45 per cent on top of the pre-tax premiums.

The analysis in this section suggests that these state taxes have impacted the take-up of insurance and in doing so, caused deadweight losses to society. The analysis supports the view that demand for contents insurance is more price sensitive than for building insurance.

These findings are supported by analysis of both variation in taxes between jurisdictions and across time and analysis of both the Roy Morgan Single Source and ABS HES data sets.

Only NSW and Victoria still impose a fire service levy on insurance premiums. The data presented supports the view that this approach to funding the fire services is costly to society. Other jurisdictions have successfully migrated to other more efficient and equitable funding methods. These should be explored by NSW and Victoria. All states should also consider alternatives to the stamp duties on insurance.

7 CONCLUSION

This report has examined the non-insurance relating to building and contents insurance focussing on using data from Roy Morgan Single Source (RMSS). Although not designed for this purpose, the Roy Morgan Research data has proved useful in conducting the profile, examining trends and relating non-insurance to state taxes. The report has been supplemented with analysis of the ABS HES which is used to estimate the total number of households not insured.

The report has profiled the non-insured. There are a large number of factors that are closely correlated with non-insurance. Key factors considered related to home type and tenure, financial position and demographic variables. Many of these factors are closely correlated with each other and it is difficult without a multi-variate statistical analysis to isolate the effects of any one variable.

The results presented in this report are consistent with people weighing up the costs and benefits of insuring. Of note the report finds

- Home type and tenure are critical drivers of non-insurance for building and contents cover
- Non-insurance for building and contents cover is closely related to indicators of affordability and financial position
- Demand for contents insurance appears to be more price sensitive than building insurance
- Non-insurance is higher in states with higher taxes on insurance

The results support the view that state taxes on insurance distort consumer behaviour and thus cause a deadweight loss to society. These results support arguments for a review of these taxes on insurance.

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APPENDICES

A1 Insurances on Roy Morgan Single Source

General Insurances	Other Insurances
Vehicle insurance Compulsory third party green slip insurance Third party property, Comprehensive, **Household and property insurance** Contents Building insurance Valuable items insurance over and above normal contents policy). **Landlord insurance (including Strata-title)** for investment properties **Loan insurance** **Business insurance** **Public liability insurance**	**Life insurance** Term Whole of life, Endowment, Other Life, any other life insurance policy, including life insurance attached to a superannuation fund **Private Health insurance (not Medicare)** Hospital and Extras cover (optical, dental, physio, etc) Hospital cover Extras cover (optical, dental, physio, etc.) **Risk Insurance** Income protection or Replacement insurance Total and Permanent Disability insurance Accident or Sickness insurance Trauma or Recovery insurance

A2 Roy Morgan Values Segments

The ten segments are as follows:

SOCIALLY AWARE ©1

This segment is usually associated with the highest socio-economic group – a community-minded and socially active pattern of thinking which can be found among politicians, public servants and pressure groups. They are an information vacuum cleaner and are always searching for something new and different, and new things to learn.

VISIBLE ACHIEVEMENT ©1

Refers to a pattern of thinking associated with people who have "made it" in whatever field they are involved in and are confident in their own abilities and position. Despite being successful, they retain traditional values about home, work and society. Being highly individualistic, they do not need to prove themselves or impress anyone. They demonstrate practical and realistic natures.

YOUNG OPTIMISM ©1

Young Optimism ©1 is a pattern of thinking associated with young professionals, technocrats and students who are optimistic and seek to improve their prospects in life to gain a respected place in society. They are into image and style (not fads and fashions) and are also busy planning their careers, attending university and thinking about the future.

REAL CONSERVATISM ©1

Real Conservatism ©1 refers to the pattern of thinking associated with people who are cautious about new things and ideas. Generally part of the "establishment", they are concerned with maintaining a disciplined, predictable and safe society. They hold very conservative social, moral and ethical values and generally feel that things are not as good as they used to be.

SOMETHING BETTER ©1

Something Better ©1 is a pattern of thinking associated with people who are very competitive and who want a bigger, better deal out of life. They tend to be individualist and ambitious people who are seeking more out of their life.

LOOK AT ME ©1

Look At Me ©1 is associated with active, unsophisticated behaviour, seeking fun and freedom away from the family and being part of the 'in-crowd'. This pattern of thinking puts great importance on fashion and trends and parties rather than staying at home. Sport, leisure and fun are too important to be interfered with by longer term commitments.

CONVENTIONAL FAMILY LIFE ©1

Conventional Family Life ©1 is a pattern of thinking most closely associated with people who represent the core of 'middle of the road' Australia, with values centred around the significant events in their personal and family lives. Within the segment exists the dream of owning your own home, driving a good, solid car and having children. Other products too, must be good, solid, reliable and value for money.

TRADITIONAL FAMILY LIFE ©1

Traditional Family Life ©1 personifies middle-ageing Australia home owners with relatively stable incomes that meet the needs of the household. It is associated with people who value and try to hold on to traditional family roles and structures, security, reliability and providing a better opportunity for their children who are generally grown and have families of their own.

FAIRER DEAL ©1

Fairer Deal ©1 is a pattern of thinking generally found among unskilled and semi-skilled workers and is associated with people who feel they get a raw deal out of life. This can relate to a belief that life has treated them unfairly. Fairer Deal often see escape as the only way of dealing with their problems.

BASIC NEEDS ©1

Basic Needs ©1 is a pattern of thinking associated with people who are focused on "getting by" on a day-to-day basis. They are often in their "twilight years", retired, pensioners and people on social security who have an active community focus to their lives or people on sickness benefits or workers compensation who have to reduce their expectations in line with reduced income.

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