Financial Literacy 'Not the Primary Problem' for Australians who Forego Building, Home Contents and Comprehensive Car Insurance

Evgenia Bourova[1], Ian Ramsay[2] and Paul Ali[3]

Abstract

Financial literacy continues to receive attention in analyses of the drivers of noninsurance in Australia. Government advertising campaigns have been launched seeking to address an alleged lack of awareness of the benefits of building, home contents and comprehensive car insurance in the community. Yet there is inadequate research connecting insurance uptake decisions with financial literacy levels. In this article, we address this research gap by drawing upon surveys of 'insured' Australians with building, home contents and comprehensive car insurance; and 'uninsured' Australians without any of these insurance products. While our findings do not indicate a clear-cut relationship between financial literacy and noninsurance, they do show somewhat lower financial literacy and confidence levels among those who forego coverage. However, the question of whether investment in generalised financial literacy education would result in greater insurance uptake remains open. Ultimately, more information does not address the 'primary problem' of affordability, which renders insurance inaccessible to many Australians, particularly those on low incomes, despite their acknowledgment of its importance.

Keywords: financial literacy; insurance literacy; noninsurance; uninsured Australians; survey

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[1] Melbourne Law School, The University of Melbourne, Australia. Email: evgenia.bourova@unimelb.edu.au

[2] Melbourne Law School, The University of Melbourne, Australia

[3] Melbourne Law School, The University of Melbourne, Australia

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1 Introduction

In Australia, building, home contents and comprehensive car insurance are widely regarded as essential to protecting both 'consumers' most valuable assets' and 'the economy overall' (Senate Economics References Committee, 2017, p. 2). While Australian governments recognise the right to social security and financial assistance to meet the immediate needs of communities affected by increasingly severe and frequent bushfires, floods and other disasters (Department of Home Affairs, 2018), the government's role in recovery from such events is seen as secondary to that of private insurers. As stated by the Royal Commission into National Natural Disaster Arrangements (2020, p. 416), 'individuals cannot rely on public and charitable entities to restore their positions following a natural disaster. Government funding does not take the place of insurance, and nor should this be expected.' Whether in the face of disasters or more commonplace incidents such as house fires, burglary, burst pipes or car accidents, individuals have primary responsibility for protecting themselves from devastating financial loss by insuring their property.

In Australia, as part of this 'risk shift' (Hacker, 2006), private insurance has become normalised as a requirement for responsible, self-reliant homeownership, and even citizenship (Booth et al., 2022). Yet within this context, Booth & Tranter (2018) estimate that approximately 4.0% of Australian homeowners lack building insurance, while 7.0% to 12.0% of homeowners and 67.0% to 74.0% of renters lack home contents insurance. Meanwhile, Robinson (2017) estimates that 25.2% of Australian vehicles are not comprehensively insured. One important factor driving these noninsurance rates is affordability (ANZ, 2004; Collins, 2011; Connolly, 2013; Maury et al., 2021; NRMA Insurance & MJ Powling Research Consulting, 2001; Sheehan & Renouf, 2006; Tooth & Barker, 2007). According to Paddam et al. (2023), 12.0% of Australian households now face home insurance affordability stress following a 28.0% rise in premium prices over the past year alone. Over-represented among those without insurance are people relying on social security incomes paid by Centrelink and other low-income earners (Banks & Bowman, 2017; Freeman, 2022; Maury et al., 2021), for whom noninsurance falls within a broader 'riskscape' including '[p]recarious labour markets and an increasingly frayed, inadequate, quasimarketised welfare system provided meagre and unstable incomes and support' (Banks & Bowman, 2017, p. 6).

Yet another factor that continues to receive attention in analyses of the drivers of noninsurance in Australia is 'financial literacy.' The Organisation for Economic Cooperation and Development (OECD) (2012, p. 13) defines 'financial literacy' as 'the knowledge and understanding of financial concepts, and the skills, motivation and confidence to apply such knowledge and understanding in order to make effective decisions.' From the early 2000s, financial literacy education was embraced by governments as a strategy for assisting consumers to navigate an increasingly financialised landscape that regularly required them 'to interact with providers of complex financial products and services, and to estimate, mitigate or absorb the risks that flow from their financial decisions' (Bourova et al., 2018). In Australia, according to ASIC (2011, p. 11), financial literacy requires, among other things, an understanding of 'the importance of insurance and protecting against risk'. In its surveys of adult financial literacy in Australia, ANZ (2015, p. 88) has also linked financial literacy with insurance ownership, stating that '[t]hose who behave in a financially literate fashion might be expected to protect their financial situation through the use of insurance.'

According to the Productivity Commission (2014), consumer understandings of insurance in Australia are 'poor,' inhibited by 'cognitive biases and information asymmetry in the insurance market' (vol. 1, p. 216), potentially 'lead[ing] to non-insurance and underinsurance' (vol. 2, p. 434). Others have also identified a 'lack of sufficient understanding' (Senate Economics References Committee, 2017, p. 13) and 'low levels of financial literacy' (ICA, 2015, p. 27) in the population as barriers to adequate insurance uptake. Sheehan & Renouf (2006) and Collins (2011) allude to 'poor' or 'limited' financial literacy and misconceptions about requirements for credit checks or a prior insurance record among the factors inhibiting insurance access for social security recipients and other low-income earners. Meanwhile, Maury et al. (2021, p. 9) state that [t]he complexity of policies… and comparing options' is 'a major issue for low-income households,' motivating some to forego insurance altogether.

Measures taken to increase awareness of insurance in Australia include the launch of ASIC's *MoneySmart* website, which aims to provide the public with plain English financial information on a broad range of topics, including insurance, as part of the National Financial Literacy Strategy (2011).[1] Governments have also undertaken targeted advertising campaigns seeking to address an alleged 'lack of understanding, an "it won't happen to me" attitude' among those who choose not to purchase coverage (Jerums, 2018). For example, in 2018, the Victorian government partnered with Good Shepherd Australia New Zealand to launch the *Insure It, It's Worth It* toolkit (Department of Families, Fairness and Housing, 2022, pp. 2, 4), which seeks to educate consumers about the importance of adequate coverage through cautionary tales of householders who did not 'prepare [their] finances for emergencies,' including a family left 'without possessions' because they insured their home but not their contents, and another left with 'no money or assets' following a fire because they did not renew their home and contents policy.

Missing from this picture is research connecting some consumers' decision to forego building, home contents and comprehensive car insurance with inadequate understandings of insurance or low financial literacy generally. As outlined in 'Literature on financial literacy and noninsurance,' some of the groups identified as experiencing the highest noninsurance rates in Australia — for example, young people, those with lower education levels and those with lower levels of income and assets (ANZ, 2015; Connolly, 2013; Marjolin et al., 2018; NRMA Insurance & MJ Powling Research Consulting, 2001; Tooth, 2012; Tooth & Barker, 2007) - also score lower in surveys measuring financial literacy (Agnew et al., 2013; ANZ, 2015; Lusardi et al., 2010; Lusardi & Mitchell, 2011). However, Lin et al. (2019, p. 705) suggest that high levels of 'general financial literacy' do not necessarily translate to high 'insurance literacy', which they define as having three aspects: 'understanding the concept of insurance, knowledge of insurance products and risks covered, and the ability to apply such knowledge to make consistent insurance decisions.'

In this article, in response to assertions that a 'lack of sufficient understanding' (Senate Economics References Committee, 2017, p. 13) and 'low levels of financial literacy' (ICA, 2015, p. 27) are among the drivers of noninsurance rates in Australia, we consider the question of whether Australians without building, home contents or comprehensive car insurance have lower levels of financial literacy than those who do purchase these insurance products. As outlined in the section 'Methodology,' we do this by comparing the findings of two surveys of (a) 'insured' Australians who purchased and recently claimed upon a building, home contents or comprehensive car insurance policy; and (b) 'uninsured' Australians who did not have any of these insurance products.[2] As shown in the sections 'Financial Literacy and Confidence' and 'Discussion,' our findings do not indicate a clear-cut relationship between financial literacy and noninsurance. Although uninsured respondents had lower levels of financial literacy than insured respondents, the difference between their levels of correct responses, while statistically significant, was not very large. Uninsured respondents also had a lower estimation of their own financial knowledge and confidence and higher rates of 'do not know' responses, indicating an overall lack of confidence surrounding finances and a tendency to under-rate their abilities in this area, or, alternatively, a greater awareness of areas where their knowledge was lacking (Lusardi 2019).

Overall it remains unclear whether investment in generalised financial literacy education would result in greater insurance uptake. Education focusing on forms of knowledge more specific to insurance - described by Lin et al. (2019) as 'insurance literacy' - may be more effective in this regard. Yet it is also not a panacea given the complexity of insurance products as well as indications that those most in need of such education typically rely upon information from trusted sources such as friends and family, and may lack motivation or resources to pursue information from a separate provider (Collins 2011; Tennyson 2011). Moreover, information does not address the 'primary problem' (Banks & Bowman, 2017, p. 31) of affordability, which renders insurance inaccessible to many Australians, particularly those on low incomes, despite their acknowledgment of its importance. Measures to improve premium affordability would have a far greater capacity to assist this group in accessing protection for their most important assets.

2 Literature on Financial Literacy and Noninsurance

The 'risk shift' that left individual 'consumers' responsible for managing the risk of disasters and other adverse events through the purchase of private insurance has occurred alongside what Berry (2015, p. 219) describes as the 'financialisation of everyday life,' involving 'a greater degree of interaction between individuals and financial services' (p. 512). In many developed countries, financial literacy education emerged as a popular policy response to the risks faced by individuals in navigating this complex landscape (OECD, 2012). Financial literacy education is believed to encourage optimal decision-making by 'turn[ing] consumers into active market players, motivated and competent to handle their own credit, insurance, savings and investment matters' (Willis, 2008, p. 201). In Australia, such objectives prompted the launch of a National Financial Literacy Strategy, which defines 'financial literacy' as requiring an adequate understanding of insurance alongside saving, budgeting, credit, comparing financial products, accessing financial advice and avoiding scams and fraud (ASIC, 2011).

A burgeoning body of research has linked low financial literacy with unmanageable debt burdens (Gathergood, 2012), greater tendency to engage in high-cost borrowing from fringe lenders (Lusardi & Scheresberg, 2013), and a reduced likelihood of engaging in positive financial behaviours such as saving for retirement (Agnew et al., 2013), or investing in funds with lower fees (Hastings & Mitchell, 2020). Groups that consistently score lower in studies measuring financial literacy include young people aged 18 to 25 years, who perform particularly poorly at choosing financial products including insurance (ANZ, 2015; Lusardi et al., 2010; Xiao et al., 2015); people with no formal post-secondary education (ANZ, 2015; Lusardi & Mitchell, 2011); people with lower levels of income and assets (ANZ, 2015); and those whose main source of income is a government benefit or allowance (ANZ, 2015). National surveys identify the same groups as also being especially likely to lack building, home contents and comprehensive car insurance (ANZ, 2004; Connolly, 2013; Marjolin et al., 2017; Muir et al., 2016; NRMA Insurance & MJ Powling Research Consulting, 2001; Tooth & Barker, 2007), suggesting links between low financial literacy and foregoing insurance coverage. Albeit in the context of personal insurance, Driver et al (2018) argue:

> *'financial literacy especially in relation to insurance is very low, with many Australians not comprehending the basic principles of insurance. This is driven by factors such as a lack of understanding of the importance of insurance, lack of knowledge about insurance products, lack of trust associated with insurance companies and not understanding the need to have appropriate cover.'*

The possibility that low 'financial literacy' is one of the factors driving some Australians to forego 'essential' forms of coverage such as building, home contents and comprehensive car insurance has been taken up by government inquiries (Productivity Commission, 2014, vol. 2, p. 434), industry bodies (ICA, 2015, p. 27), and community organisations researching financial exclusion (Collins, 2011; Sheehan & Renouf, 2006). According to the Productivity Commission (2014, vol. 2, p. 349), some consumers are not 'well placed to understand and act on the available information' about insurance 'because they lack the necessary expertise or experience, do not trust the information, or do not have adequate financial capacity to reduce their risks to a desirable level. Sheehan and Renouf (2006) and Collins (2011) describe low-income earners who are unaware of the benefits of insurance, or mistakenly assume they would not be approved for a policy due to being a renter, having an adverse credit rating, or being located in an area considered higher risk for crime. Overseas studies, too, attribute noninsurance to consumers' inability to navigate the complexity of insurance: 'The insurance buying decision process can be so complex and confusing that people will eschew either searching for information or purchasing insurance for low probability high consequence events' (Kunreuther & Pauly, 2004, p. 18).

There is extensive evidence that the sheer variety and complexity of insurance products and documents presents consumers with much to overwhelm, undermining the concept of informed decision-making (ASIC & Susan Bell Research, 2014; FRLC, 2018; Malbon & Oppewal, 2018). Assuming that increasing financial literacy will both assist consumers in navigating these complexities and make better financial decisions, multiple commentators have stressed the importance of financial literacy education (OECD, 2012; Lusardi, 2019). Some have also suggested that greater insurance uptake might be encouraged by measures to improve consumer understandings of the importance of insurance, such as financial literacy education incorporating insurance information in schools, advertising campaigns and promotional literature highlighting the dangers of foregoing coverage (Collins, 2011; Driver et al. 2018; Good Shepherd Microfinance, 2013; Sheehan & Renouf, 2006).

The term 'insurance literacy' implies that the responsible, informed, *literate* choice is to purchase an insurance policy. This is expressed by ANZ (2015, p. 88) in its assertion that '[t]hose who behave in a financially literate fashion might be expected to protect their financial situation through the use of insurance.' Booth & Kendal (2020) argue that such assumptions 'project a sense of irrationality on those who do not insure, inferring a need to discipline such individuals and communities into better behaviour.' Yet research on the role of behavioural biases suggests that higher financial literacy levels may not necessarily translate into better financial behaviours (Willis 2008). This is because consumer decisions, whether they result in purchasing or foregoing insurance coverage, are not solely driven by their rational utilisation of the information available to them - for example, about the benefits of insurance and the incidence of local hazards - but subject to psychological biases and non-rational outcomes (Tversky & Kahneman, 1974). Particularly relevant to insurance is the overconfidence bias, whereby consumers overestimate their cognitive abilities and their control over outcomes (De Meza et al., 2008; Van den Steen, 2004), which may lead them to forego coverage or knowingly underinsure because they underestimate their chances of being affected by disasters, car accidents and other negative events, or overestimate their capacity to mitigate or avoid risk (for example, by driving rarely or carefully). Also relevant is the choice overload bias, which may lead to people delaying purchasing coverage when confronted with too many product offerings (Productivity Commission, 2014, vol. 2).

Specifically in the context of insurance, Lin et al. (2019, p. 705) suggest that high levels of 'general financial literacy' do not necessarily translate to high levels of 'insurance literacy', while Tennyson (2011) suggests there are only marginal differences between the insurance knowledge demonstrated by persons with personal finance education and those without any such education. Meanwhile, in the context of index insurance,[3] Harrison et al. (2022) show that 'domain-specific index insurance literacy' - rather than general financial literacy - is associated with better outcomes from a consumer welfare perspective, regardless of whether the consumer decides to purchase or forego coverage. Yet general financial literacy education - let alone public education campaigns about the importance of insurance coverage - cannot provide the extent of the knowledge and competencies required to make informed decisions about this incredibly complex financial product. The considerations and calculations involved in purchasing adequate insurance - particularly building insurance, which puts the onus on consumers to estimate the 'sum insured' required to cover their potential rebuilding costs in case of a hypothetical future event - render this 'an intrinsically complex task requiring specialist knowledge and expertise' (ASIC, 2005, p. 19). As Willis (2008, p. 219) argues, financial literacy education 'cannot bridge the gulf between the knowledge, comprehension and skills' required 'in today's market' and those of the average person navigating this landscape.

Overall, the connection between some consumers' decision to forego building, home contents or comprehensive car insurance and inadequate awareness of insurance or low financial literacy more generally is subject to debate. In one study of consumer understandings, affordability and other factors driving home insurance purchase behaviour, Tooth (2012, p. 21) found that 29% of respondents without home contents insurance chose not to purchase it because they had not 'got round to it' or had 'not thought about it,' while 26.0% said the same of building insurance. Meanwhile, Maury et al. (2021, p. 9) - who describe '[t]he complexity of policies… and comparing options' as 'a major issue for low-income households' - ultimately find that the stronger driving factor of the decision to forego coverage is affordability, rather than a lack of perceived value for insurance, manifested in views that insurance is 'not worth it,' or in omitting to purchase a policy because 'it had simply never occurred to them' (pp. 8, 6, 23). Only 3.0% of uninsured participants in their study attributed their decision to car insurance not being valuable, and only 4.0% did not consider home and contents insurance valuable, while 39.0% and 41.7% respectively cited affordability concerns as their reason for foregoing such coverage (Maury et al., 2021). In another study by Collins (2011), despite industry assumptions that low income people are unaware of insurance, most participants were generally aware of its benefits and expressed a desire for more insurance coverage.

3 Methodology

Our study formed part of a broader research project examining the various drivers of noninsurance in Australia. Based upon the literature outlined above - and particularly given the mixed evidence linking noninsurance with lack of awareness of insurance, let alone low financial literacy generally - we sought to answer the question of whether Australians without building, home contents or comprehensive car insurance have lower financial literacy than those who do purchase these insurance products. Our study consisted of two surveys delivered through the research company Pureprofile, which maintains a database of panellists who complete online surveys for a small cash payment. Survey 1 targeted 'insured' Australians who had purchased and recently claimed upon a building, home contents or comprehensive car insurance policy. Survey 2 was targeted at 'uninsured' Australians who did not have any of these insurance products.

3.1 Survey questions

Survey 1 comprised 107 mostly quantitative multiple-choice questions and employed screener questions to ensure respondents had purchased and, within the previous three years, claimed upon a building, home contents or comprehensive car insurance policy. Survey 2 comprised 52 questions and required that respondents (a) did not have building, home contents or comprehensive car insurance; and (b) drove a car owned or paid off by them or someone else in their household (as car insurance is irrelevant to people without a car). Both surveys also required that respondents (a) were aged over 18; and (b) had some responsibility for making household financial decisions.

Both surveys began with a similar set of demographic questions. Respondents were asked to rate their knowledge of financial products and services, including insurance, and their confidence in using them, and to identify the sources of information they relied upon to make financial decisions. Uninsured respondents were asked to indicate to what extent they agreed with statements about their attitudes to financial matters in a five-point Likert scale format, with responses ranging from 'strongly agree' to 'strongly disagree.'

Respondents were then asked the 'Big Three' financial literacy questions developed by Lusardi and Mitchell (2009) and widely used in subsequent empirical studies (for example, Agnew et al., 2013). These questions seek to measure financial literacy by testing (a) ability to perform a simple calculation related to compound interest rates; (b) understanding of inflation; and (c) knowledge of risk diversification. These questions are as follows (with asterisks indicating the correct responses):

1. *Suppose you had $100 in a savings account and the interest rate was 2% per year. After 5 years, how much do you think you would have in the account if you left the money to grow?*
   *More than $102 **
   Exactly $102
   Less than $102
   Do not know
   Refused to answer

2. *Imagine that the interest rate on your savings account was 1% per year and inflation was 2% per year. After 1 year, how much would you be able to buy with the money in this account?*
   More than today
   Exactly the same
   *Less than today **
   Do not know
   Refused to answer

3. *Please tell me whether this statement is true or false. 'Buying shares in a single company usually provides a safer return than buying units in a managed share fund'.*[4]
   True
   *False **
   Do not know
   Refused to answer

3.2 Delivery and analysis

Both surveys were launched in August 2019 following receipt of ethics approval. We asked Pureprofile to impose quotas based on the data from the Australian Bureau of Statistics (ABS) Census (2016) to ensure the sample for Survey 1 was nationally representative in terms of age, gender and geographic location. We delivered Survey 1 in three waves, asking Pureprofile to obtain quotas of approximately 500 completed surveys from people who had, within the previous three years, claimed on a home contents insurance policy; a building insurance policy; and a comprehensive car insurance policy. Quotas were not imposed for Survey 2.

The data from both surveys was analysed by a statistician. Differences in sample means and proportions between various sub-groups within the total samples from each survey were tested using chi-square tests of independence to determine whether they were statistically significant. We excluded 103 respondents from the sample for Survey 2 on the basis that they were owners of apartments and units who would have building insurance through their body corporate, and who should have been excluded by the screener question asking if their home was covered by building insurance. In this article, we combine the three waves of Survey 1 into a single sample of insured respondents (n = 1,507) and compare them against the final sample of uninsured respondents from Survey 2 (n = 897).

4 Results

4.1 Demographics

The demographics of insured and uninsured respondents are set out in Table 1.

Table 1 Demographics of insured and uninsured respondents

		Insured respondents (Survey 1) (n = 1,507)	Uninsured respondents (Survey 2) (n = 897)
Gender	Male	47.4%	43.6%
	Female	52.6%	56.4%
	Other	0.1%	0.0%
Age	18–24 years	9.0	18.4
	25–34 years	24.6	28.9
	35–44 years	21.0	23.3
	45–54 years	15.0	11.6
	55–64 years	14.1	11.1
	65 years and over	16.3	6.7
Place of birth	Australia	79.9%	80.3%
	Overseas	20.1%	19.7%
Current living situation[5]	Own home outright	35.9%	10.5%
	Own home with a mortgage	43.0%	15.1%
	Renting from a landlord or real estate agent	15.1%	57.0%
	Renting in public or community housing	2.5%	10.9%
	Living rent-free with family or friends	3.1%	5.4%
Highest level of education completed	Year 10 or less	6.5%	12.6%
	Year 11	3.8%	3.6%
	Year 12	13.1%	16.1%
	Technical or Further Education (TAFE) course[6]	25.0%	27.8%
	Bachelor degree	31.8%	28.9%
	Postgraduate degree	19.8%	11.1%
Main source of income in household[7]	Wages paid by employer	57.6	55.3
	Earnings from own business	10.0	5.4
	Centrelink payment	18.0	30.9
	Other income (e.g. superannuation, savings, investments)	14.4	8.4

Employment situation	Employed (permanent full-time)	46.6%	35.1%
	Employed (permanent part-time)	12.9%	8.5%
	Employed (casual full-time)	3.0%	3.2%
	Employed (casual part-time)	6.5%	8.7%
	Self-employed or working in a family business	5.9%	6.0%
	Studying	4.7%	10.6%
	Unemployed	2.3%	9.4%
	Retired	16.9%	8.5%
	Caring for a child or another person	3.5%	7.8%
	Home duties	5.4%	12.0%
Occupational group*	Manager	23.9%	14.4%
	Professional	33.2%	23.7%
	Technician and trades worker	8.3%	10.2%
	Community and personal services worker	6.3%	10.0%
	Clerical and administrative worker	11.3%	14.6%
	Sales worker	5.3%	10.7%
	Machinery operator and driver	1.7%	2.0%
	Labourer	4.0%	6.8%
	Other	5.9%	7.6%

* The sample for this question comprised only those insured respondents (n = 1,103) and uninsured respondents (n = 541) who were employed.

4.2 Financial literacy and confidence

Insured respondents (n = 1,507) and uninsured respondents (n = 897) were asked to rate their knowledge of financial services and products, including insurance, and their confidence in using them. Of our sample of insured respondents, 37.1% rated their financial knowledge as being 'very high' or 'high'; 52.9% said 'average'; and 10.0% said 'low' or 'very low.' Only 24.4% of uninsured respondents rated their financial knowledge as being 'very high' or 'high'; 53.5% said 'average'; and 22.1% said 'low' or 'very low.' Meanwhile, 39.4% of insured respondents rated their financial confidence as being 'very high' or 'high'; 50.8% said 'average'; and only 9.8% said 'low' or 'very low.' Only 22.4% of uninsured respondents rated their financial confidence as being 'very high' or 'high'; 51.8% said 'average'; and 25.8% said 'low' or 'very low.'

Uninsured respondents were asked to indicate to what extent they agreed with statements about their attitudes to financial matters. For the statement 'I could assess the pros and cons of several different insurance products without asking for help,' responses included 'strongly agree' (8.4%), 'agree' (35.9%), 'neither agree nor disagree' (14.6%) and 'strongly disagree' (5.0%). For the statement 'Dealing with money is stressful and overwhelming,' responses included 'strongly agree' (14.6%), 'agree' (32.0%), 'neither agree nor disagree' (29.2%), 'disagree' (19.7%), and 'strongly disagree' (4.7%).

Insured and uninsured respondents were asked the Big Three financial literacy questions introduced in 'Methodology'. The proportions of respondents from both surveys who answered each of these questions correctly - or answered 'do not know' - are shown in Table 2.

Table 2 Comparing responses to the Big Three financial literacy questions

	Answered correctly		Answered 'I don't know'	
	Insured respondents (Survey 1) (n = 1,507)	Uninsured respondents (Survey 2) (n = 897)	Insured respondents (Survey 1) (n = 1,507)	Uninsured respondents (Survey 2) (n = 897)
Suppose you had $100 in a savings account and the interest rate was 2% per year. After 5 years, how much do you think you would have in the account if you left the money to grow?	75.4%	* 70.3%	4.6%	* 10.6%
Suppose that the interest rate on your savings account was 1 per year and inflation was 2 per year. After 1 year, how much would you be able to buy with the money in this account?	54.9%	* 48.8%	8.8%	* 23.6%
Buying shares in a single company usually provides a safer return than buying units in a managed share fund.	49.4%	* 41.6%	27.7%	* 48.9%

Note: One asterisk (*) indicates that difference is statistically significant at the 0.01 level (Chi-Square test).

4.3 Sources of financial information

All uninsured respondents (n = 897) were asked to identify their main sources of information that they relied upon to make decisions about financial products including insurance. Responses included 'talking to family, friends or colleagues' (68.8%); 'comparison websites (for example, Canstar, Infochoice, iSelect)' (53.8%); 'government information (for example, ASIC's *MoneySmart* website, Centrelink)' (48.6%); 'free financial advice from a financial counsellor' (26.0%); 'insurance company websites' (25.4%); 'media (for example, television, newspapers)'(25.2%);

'paid financial advice from a professional (for example, accountant, financial planner' (17.4%); 'advice from a broker'(15.9%); and 'advice from insurance company staff (for example, over the phone, at a branch' (14.4%).

5 Discussion

In this section of the article, we compare the findings of our surveys of insured and uninsured Australians and discuss their implications for law and policy surrounding insurance uptake.

As shown in the section 'Demographics,' compared to insured respondents participating in Survey 1 as well as Census data relating to the broader Australian population (ABS, 2019; 2021), uninsured respondents participating in Survey 2 had lower levels of homeownership and higher rates of reliance on social security incomes paid by Centrelink. They had lower levels of formal education and were significantly less likely to be in higher-prestige occupational groups such as 'manager' and professional.' These findings lend support to earlier studies linking elevated noninsurance rates and reduced access to financial products and services with indicators of socio-economic disadvantage such as renting, lower educational attainment and lesser levels of paid employment (ANZ, 2004; Connolly, 2013; Marjolin et al., 2017; Muir et al., 2016; NRMA Insurance & MJ Powling Research Consulting, 2001; Tooth & Barker, 2007). Some of the same demographic groups over-represented among uninsured respondents also tend to score lower in studies measuring financial literacy, including those employing the Big Three financial literacy questions (ANZ, 2015; Lusardi & Mitchell, 2011).

Yet despite assertions that a 'lack of sufficient understanding' (Senate Economics References Committee, 2017, p. 13) and 'low levels of financial literacy' (ICA, 2015, p. 27) are among the drivers of noninsurance rates in Australia, our findings do not indicate a clear-cut relationship between financial literacy and noninsurance. As shown in the section 'Financial literacy and confidence,' uninsured respondents taking part in our study did score lower on the Big Three financial literacy questions compared to insured respondents. However, the differences between their levels of correct responses, while statistically significant, were not very large, and both groups had room for improvement in terms of capacity to undertake calculations and understand concepts such as risk diversification. Uninsured respondents also had significantly higher rates of 'do not know' responses, potentially indicating greater awareness of areas where their knowledge was lacking (Lusardi, 2019), while insured respondents may have been overconfident about their own financial competence, and more likely to give an incorrect response when unsure about the answer. The higher rate of 'do not know' responses could also indicate an overall lack of confidence surrounding finances among uninsured respondents and a tendency to under-rate their own abilities in this area. In support of the latter explanation, 22.1% and 25.8% of uninsured respondents self-assessed their financial knowledge and confidence as being 'low' or 'very low,' compared to only 10.0% and 9.8% of insured respondents. Furthermore, 19.6% of uninsured respondents did not believe they could 'assess the pros and cons of several insurance products without asking for help.'

Their lower scores on the Big Three questions, together with the fact that 46.6% of uninsured respondents found dealing with money 'stressful and overwhelming,' are factors suggesting they may benefit from generalised financial literacy education. However, questions remain as to whether investment in such education would result in greater insurance uptake. Driver et al. (2018) suggest that specialised education with the objective of increasing 'insurance literacy' and raising awareness of the value of insurance may be more effective in this regard. Yet Driver et al. (2018, p. 70) acknowledge that improving insurance literacy 'is not as simple as producing websites and flyers,' but rather 'requires a sustained program of information and advice that educates consumers about the value of insurance.' Websites such as *MoneySmart* already feature basic information about insurance, but the well-documented complexity of comparing policies and calculating a sum insured requires a measure of 'specialist knowledge' (ASIC, 2005, p. 19) that cannot easily be transmitted to prospective policyholders (Lin et al. 2019; Willis 2008). Furthermore, people with low insurance literacy typically prefer face-to-face, word-of mouth communication with trusted sources such as friends and family (Collins, 2013), and may lack motivation or resources to pursue information from 'formal sources' such as 'insurance sellers, third-party experts, print sources such as books or magazine articles, and the Internet' (Tennyson, 2011, p. 175). As shown in the section 'Sources of financial information,' talking to family, friends or colleagues (68.8%) was the top source of information about insurance for uninsured respondents, although high proportions also relied upon government information (48.6%) and comparison websites (53.8%). Perhaps indicatively of a broad lack of trust in insurers, only 14.4% would seek advice from insurance company staff in making their decision.

Ultimately, the relationship between 'insurance literacy' and insurance uptake remains unclear. While Lin et al. (2019, p. 705) found that those with 'additional education more specific to insurance such as actuarial studies' had greater ability to understand insurance concepts and apply knowledge to insurance decision-making, Lo (2013, p. 170) found that the ability to comprehend policy documents was not a significant factor in determining whether consumers would purchase flood cover, and that failure to understand policy terms 'did not discourage greater financial commitment to insuring against flood risks.' In fact, insurance literacy, as evidenced by comprehension of concepts such as exclusions and limits, and even the baseline understanding that policies differ from one another and warrant comparison, is low even among insured consumers, but clearly does not deter them from purchasing coverage (ASIC & Susan Bell Research, 2014; ICA, 2017; Quantum Market Research, 2013; Malbon & Oppewal, 2018). While the complexity of insurance documents has been cited as a potential driver of noninsurance among people on low incomes in particular (Collins, 2013; Maury et al., 2021; Sheehan & Renouf, 2006), only a minority of those who do purchase policies read any such documents (ICA, 2015), and over half base their decision solely on premium price and their capacity to afford it (Quantum Market Research, 2013).

In the end, more information - whether through advertising campaigns, or more targeted investment in insurance-specific and general financial education - does not address the primary barrier to insurance uptake, which is affordability (ANZ, 2004; Collins, 2011; Connolly, 2013; Maury et al., 2021; NRMA Insurance & MJ Powling Research Consulting, 2001; Sheehan & Renouf, 2006; Tooth & Barker, 2007). While ANZ (2015, p. 88) links behaving in a 'financially literate fashion' with insurance purchase, studies investigating financial behaviours by social security recipients and other low-income earners paint a more complicated picture, suggesting that uninsured low-income households generally 'understand the importance of insurance and value it,' acknowledging that it 'mitigates a range of risks' (Maury et al. 2021, p. 85), but are forced to forego it to meet more pressing living needs. Even Collins (2011), though calling for public health-style advertising 'to raise awareness of the dangers of being uninsured' (p. 42), finds that low-income earners are generally 'aware of the risks of being uninsured' and regard insurance as 'important' (p. 9), but go without it on affordability grounds. As articulated by Banks and Bowman (2017), insurance literacy is 'not the primary problem' (p. 31) for low-income earners living with 'paper-thin financial buffers' (p. 28). For this group, noninsurance can itself be a calculated, 'pragmatic' and 'rational' decision made through 'weighing up multiple risks' (Banks & Bowman, 2017, p. 30) amidst a range of 'difficult constraints' (p. 31), rather than an irresponsible failure to consider future needs. Amidst such constraints — which include precarious employment conditions and low, unreliable payments for social security recipients (Banks & Bowman, 2017)

- it is unsurprising that low-income earners in particular might find dealing with money 'stressful and overwhelming' even if provided with access to additional education on financial matters.

6 Conclusions

Prompted by assertions that insufficient understandings of insurance and low financial literacy generally are among the drivers of noninsurance rates in Australia (ICA, 2015; Senate Economics References Committee, 2017), our study addressed the question of whether Australians without building, home contents or comprehensive car insurance have lower levels of financial literacy than those who do purchase these insurance products. Although uninsured participants in our study did have lower levels of financial literacy than insured respondents, the difference between their levels of correct responses, while statistically significant, was not very large. Uninsured respondents also had a lower estimation of their own financial knowledge and confidence and a higher rate of 'do not know' responses, which could indicate an overall lack of confidence surrounding finances and a tendency to under-rate their abilities in this area, or, alternatively, a greater awareness of areas where their knowledge was lacking (Lusardi 2019).

Altogether, our findings - including the high proportion of uninsured respondents who found dealing with money 'stressful and overwhelming' - leave open the question of whether generalised financial literacy education might be beneficial for this group. More doubtful is the question of whether investment in such education would result in greater insurance uptake. While specialised education with the objective of increasing 'insurance literacy' may be more effective in this regard, evidence of low levels of understanding of insurance among those who do purchase coverage suggests that Australians who forego insurance are not doing so because of insufficient awareness of its value or inadequate capacity to navigate financial products and services generally. Education is also not a panacea given the complexity of insurance products and the tendency by those most in need of such education to rely upon information from trusted 'informal' sources such as friends and family (Collins 2011; Tennyson 2011).

Moreover, information does not address the barrier of affordability, which renders insurance inaccessible to many Australians despite their acknowledgment of its importance. According to Banks and Bowman (2017, p. 7), for low-income Australians in particular, the decision to forego home contents and comprehensive car insurance can be 'just as rational and moral as the decision of others to insure for personal, "family tradition" and pragmatic reasons.' For this group, advertising campaigns about the benefits of insurance, or investment in general financial literacy or insurance-related education does not alter the fact that their 'paper-thin financial buffers' (Banks & Bowman, 2017, p. 28) do not suffice to cover premiums. Given the lack of clarity regarding the role of understandings of insurance in driving noninsurance rates, research into and funding for measures to improve premium affordability - such as insurance-with-rent schemes, investment in microfinance, or the establishment of direct, targeted subsidies or concessions for low-income earners (ACCC, 2020; Freeman, 2022) - may have greater capacity to assist uninsured Australians to access protection for their most important assets.

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