ANALYSIS OF THE DEMAND FOR CONTENTS INSURANCE

INTRODUCTION

In May 2007 the Insurance Council published the report, *"The Non Insured: Who, Why and Trends"** which examined non-insurance for house and contents insurance. The Insurance Council report tackled two key aspects of non insurance — who the non-insured are, including the characteristics of the non-insured and the effect of government policies on the extent of non-insurance. The analysis in the report was undertaken by the Australian National University and drew significantly on survey data from Roy Morgan Research (primarily the Roy Morgan Single Source Survey or RMSS) to profile the non-insured.

This *Industry In Focus* paper builds on the *Non-insured* Report and examines in more detail the extent to which household characteristics (such as tenure type, dwelling structure and family structure) and socioeconomic factors (such as age and household disposable income) can shape the decision to purchase contents insurance.

Key findings

- The odds of a household having contents insurance is significantly greater if the household has purchased building insurance.

- A household occupying a separate dwelling is more likely to have contents insurance than a household living in a semi detached dwelling or a flat.

- Increasing your household disposable income by $5,000 will increase the odds of you being insured by 7.5%.

- Households where the household head was born in Australia have greater odds of having contents insurance, with the likelihood of having contents insurance declining the more recently the household head arrived in Australia.

- An owner without a mortgage is marginally less likely to be insured than an owner with a mortgage.

- Households where the household head is aged less than 30 are least likely to be insured while households where the household head is aged in the 40-44 year age group is most likely to be insured.

DETAILED RESULTS – WHAT DRIVES NON-INSURANCE IN CONTENTS?

Surprisingly – the value of household contents is not a good predictor, but home ownership is

Contrary to expectation, the value of one's households contents is not a reliable predictor that you will purchase contents insurance. Other things being equal, one would reasonably expect the propensy of being insured would increase with the value of your household's contents. However, statistically, when value of contents is considered in isolation from other factors or alternatively, when other features are controlled for, the value of contents is not a good predictor. This seems to confirm the original finding in the *Non Insurance* report of a strong association between the take up of house insurance and the take up of contents insurance and moreover, a strong association between home ownership and the take up of house insurance.

The strong relationship between the decision to purchase house insurance and with it, contents insurance is demonstrated by the fact that the odds of a household having contents insurance increases by around 23 times if the household purchased house insurance. Viewed another way, if a household purchases house insurance, the odds that that household would also purchase contents insurance increases by over 2000%.

Family structure is an important driver.

A household's disposable income is a reliable but minor predictor of the decision to purchase insurance while the age of the household head is a poor predictor of the decision to take up insurance.

By contrast, family structure has a significant influence on the decision to purchase contents insurance. Simply put, couples have much greater odds of taking up insurance. As the graph below demonstrates, couples demonstrate by far the greatest odds of having contents insurance. One parent and lone person households, on the other hand, demonstrate a low probability vis a vis other family types from having contents insurance.

GRAPH 1: ODDS OF HAVING CONTENTS INSURANCE BY FAMILY STRUCTURE

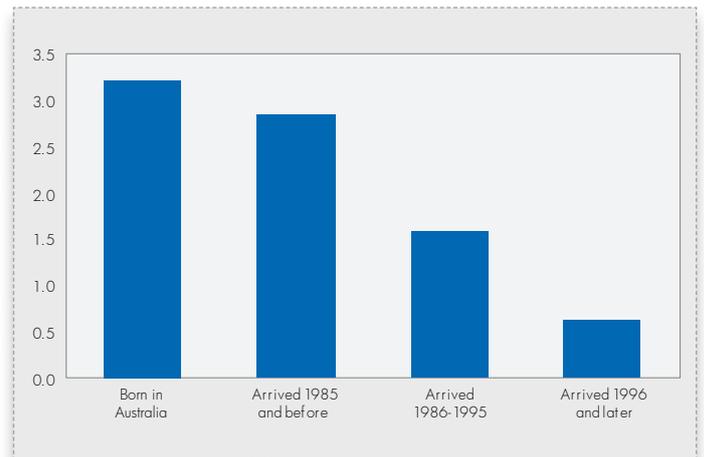**GRAPH 2:** ODDS OF A HOUSEHOLD HAVING CONTENTS INSURANCE
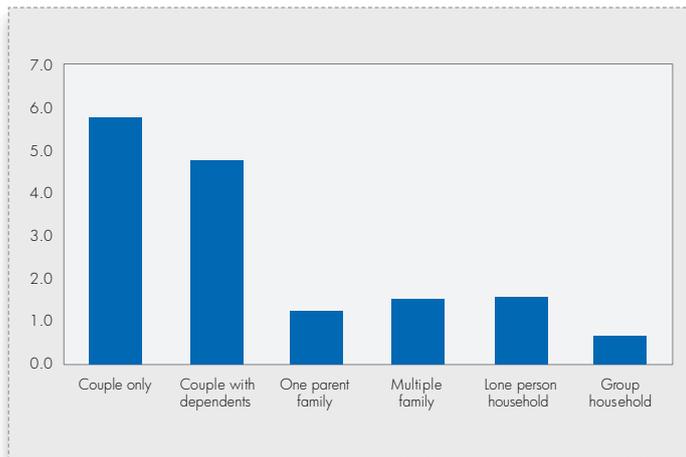
So too, your place of birth

The place of birth or year of arrival in Australia is a significant predictor of the odds of taking up insurance. Overall the odds of being insured is greatest where the household head was born in Australia. Conversely, the odds of having contents insurance declines the more recent the arrival in Australia.

As the graph below demonstrates, the odds of a household having insurance where the household head was born in Australia is a little over three to one or in other words, for every 100 Australian born households that do not have insurance, a little more than 300 will. On the other hand, for those newly arrived households (i.e. arriving in 1996 or after) for every 100 households that do not have insurance, approximately 50 do.

The odds of having contents insurance by place of birth or period of immigration of the household head is shown in the bar chart below.

Owning a detached house also increases the likelihood of having contents insurance

Dwelling structure is also a very useful predictor of having contents insurance. Households that occupy their own separate dwelling have greater odds of having contents insurance as the chart below shows. Least likely to have contents insurance were those in flats and other styles of dwelling structures. Other dwellings include caravans, houseboats, impoverished home and attached houses or flats.

The odds of each type of dwelling structure having contents insurance is shown in the bar chart below.

**GRAPH 3:** ODDS OF DWELLING TYPE HAVING CONTENTS INSURANCE
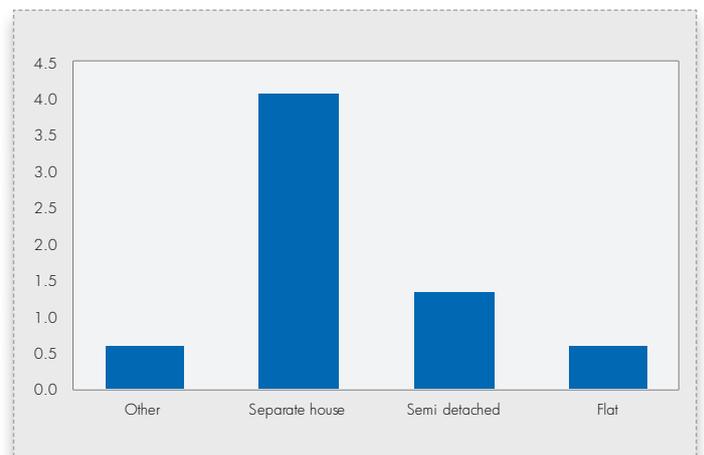
And if you have a mortgage, you are more likely to take out contents insurance

Consistent with the discussion above, the odds of an owner household with a mortgage having contents insurance is marginally greater than that of an owner without a mortgage and significantly larger than a non-owner.

The odds of an owner with a mortgage having contents insurance is around nine to one, compared with odds of about seven to one for an owner without a mortgage. This means that for every mortgaged 100 households without insurance, some 900 mortgaged households will have insurance. Similarly, for every 100 non mortgaged households that do not have insurance, 700 of these types of households would.

GRAPH 4: ODDS OF HAVING CONTENTS INSURANCE BY TENURE TYPE
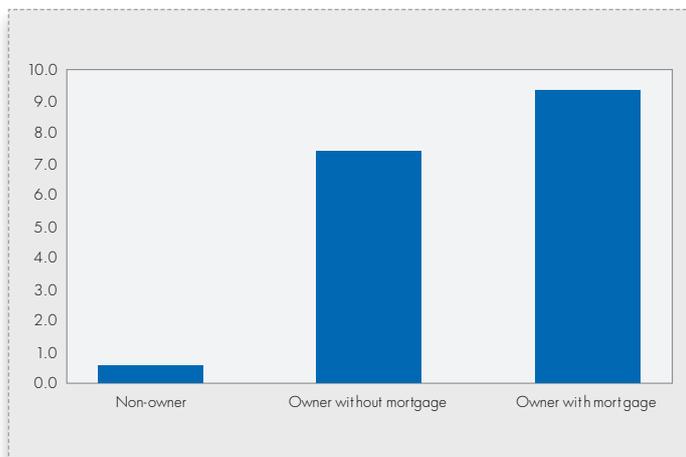
What other relationships increase the likelihood of having contents insurance?

The technique above allows one to consider what other demographic features influence the probability of taking out contents insurance. For example, it is not surprising that households suffering financial stress have 71% smaller odds of having insurance compared with a household not suffering financial stress. Similarly, 'change over buyers' have greater odds of having contents insurance than a first home buyer.

CONCLUSION

Looking at the data another way, we can see what the probability of a given "type" of household is of having insurance. For instance a "typical" household with an average disposable income of $47,500, is born in Australia, is a couple family with dependent children, between 40 and 44 years of age, has purchased house insurance, lives in a separate dwelling, is an owner occupier with a mortgage and not suffering from financial stress has a 95% probability of having contents insurance. A household with these characteristics has odds of taking out contents insurance of 19 to one, or for every 100 households of this type that do not have contents insurance 1900 of this type will.

In contrast a "least typical" household with a disposable income of $15,000, arrived in Australia in or after 1996, living in a group household, is 20-24 years of age, does not have house insurance, is a non-owner living in a flat and is suffering from financial stress has a 2.4% probability of having contents insurance. A household with these characteristics has odds of taking out contents insurance of a mere 0.0245 to 1 – or for every 100 households of this type that do not have insurance, 2.5 will.