

GETTING PERSONAL ABOUT PERSONAL INSURANCE

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ABSTRACT

This article reports research into an area of insurance, personal insurance. This is important as some research suggests that insurance literacy could be related to the level of insurance purchased. To consider this potential relationship this article reports a detailed analysis of interviews with consumers and financial advisers in Australia about their consideration of personal insurance products. The findings reveal financial advisers consider that consumers have very low levels of insurance literacy, which they believe is linked to underinsurance. Consumers demonstrated low levels of personal insurance literacy, with trauma insurance being the least understood, and this may lead to strategies to improve insurance literacy and address concerns about under- or over-insurance.



1. Introduction

Life is full of uncertainties and risks faced by individuals. While some risks and uncertainties can be eliminated, others cannot. Negative effects of uncertainties and risks can manifest in emotional and financial losses. While the effects of emotional losses can be difficult to minimise, the negative effects of financial losses can be minimised with appropriate insurance policies. Most acknowledge that insurance is important, but there is a concern that individuals may be underinsured—either holding no insurance or holding insufficient coverage. One of the reasons posited about underinsurance is that individuals may have low levels of financial and insurance literacy. This research seeks to explore this potential relationship in terms of personal insurance by interviewing consumers and financial advisers.

This research is important because underinsurance can have negative effects on Australian individuals, businesses, and society as a whole. For example, if individuals do not have adequate personal insurance coverage, then they may be forced to apply for government payments to support them through difficult times. Furthermore, over-insurance can be problematic as well, with individuals wasting valuable resources. Through examining the understanding of two cohorts (consumers and financial advisers) about personal insurance, we aim to demonstrate important differences and some of the factors to consider when it comes to insurance literacy and its relationship with the level of insurance held. This is the first known Australian research to do this detailed comparison.

The research objective is to gain a better understanding of an often overlooked area of insurance, personal insurance, gain an appreciation of Australian consumers' personal insurance literacy, and how it may vary between the four examined types, life insurance (death component), total and permanent disability (TPD) insurance, trauma insurance and income protection (IP) insurance.

Section Two of this article will provide a broad summary of the types of personal insurance products examined, the importance of insurance, the underinsurance problem and financial literacy. Section Three will provide the research methodology undertaken, the demographics of the participants, and the results, then identify limitations and provide our conclusions.

2. Insurance Background Information

This section will discuss the types of personal insurance examined in this research and the importance of insurance, financial literacy and insurance literacy.

2.1 Types of personal insurances

In this research four types of personal insurance policies are examined: life insurance (death component), IP, TPD and trauma. Life insurance provides financial protection for families and dependent relatives and helps extinguish the debt of the deceased (Teale, 2016). If a financial contributor in a household was to die prematurely while holding life insurance, the insurance company would pay the beneficiaries a lump sum. IP policies provide payments in the form of income streams when the insured is not able to work due to illness or disability (Teale, 2016). TPD and trauma policies provide payouts to insured individuals in the event of total and



permanent disabilities, such as loss of limbs, loss of eyesight, paralysis, cognitive impairment and various medical illnesses clearly identified in the insurance policy. Appropriate insurance policies can minimise negative effects of financial losses associated with risks and uncertainties. The benefit of appropriate insurance coverage becomes evident once a loss has occurred, as it helps an individual (or their family and/or dependents) to compensate for the loss suffered or pay out debt.

2.2 Underinsurance

Underinsurance refers to the situation where a person does not have sufficient insurance to cover all the liabilities and ongoing expenses in cases where they get sick, become disabled, or die prematurely (Waraker, 2021). It appears that an overwhelming majority of Australians have insufficient life insurance to protect their families (Craft, 2018). Waraker (2021) states that many Australians do not have an adequate amount of insurance coverage to provide for themselves and their families in a time of need. This is supported by various financial planning industry studies that have identified that Australians are underinsured. The latest study conducted by Rice Warner in 2020 estimated that the underinsurance gap has widened since the last report prepared in 2017, in which it was estimated that the median coverage level is only \$143,500, or twice the median household income. It is suggested that the amount required to be adequately covered is around eight times the family income (Rice Warner, 2021). In particular, the total sum insured for life and TPD insurance decreased by 17% and 19%, respectively, over the two years to June 2020 (QSuper, 2023). This level of insurance is not sufficient, especially considering that for family members to be adequately protected, it is estimated they would need to have 5.4 years' worth of coverage (Laycock, 2020). A study conducted by the Financial Services Council suggests that approximately 1 million Australians are underinsured for life and TPD insurance, and 3.4 million are underinsured for IP insurance (Financial Services Council, 2022). Even if insurance is held, studies have found that individuals do not read their insurance contracts at all (Eigen, 2012).

A life insurance survey conducted in 2023 by an online financial broking firm, Savvy, found that 46% of women and 42% of men admitted that they did not have life insurance and did not wish to purchase a policy (Risk Info, 2023).

The potential impact of underinsurance is of concern, as it is estimated that there are 18 families in Australia that lose a working parent every day (Laycock, 2020). Furthermore, 236,000 individuals of working age suffer a serious injury or illness every year, and of these, 17,000 are forced out of the workforce for a prolonged period of time, some permanently (Laycock, 2020).

While the reasons for not wanting to purchase insurance can vary, cost could be a reason, especially since the purchasing of insurance can involve a cost-benefit analysis, which can be difficult for individuals to determine. Such a decision relies on a person's financial literacy.

2.3 Financial and insurance literacy

A key aspect of this research is to understand to what extent, if any, financial literacy, in particular personal insurance literacy, may play in whether an individual acquires personal insurance products.



Financial literacy can be defined as a broad concept encompassing an understanding of economics and how household decisions are affected by economic conditions and circumstances (Hogarth, 2002). It can also be defined quite narrowly, specifically focusing on basic money management, such as budgeting, saving, investing and insuring (Hogarth, 2002). Basu (2005) defined financial literacy as the ability to make informed judgements and to take appropriate actions about the current and future management of money.

Financial literacy has risen on the agenda for educators, community, business and consumer groups, government agencies and policymakers. This can be of particular importance given the government policy drive for self-funded retirement, which requires more onus on individuals to make financial decisions to support their retirement rather than relying solely on government-aged pensions. Also, this can be compounded by changes in Australia's demography, including increased longevity and higher rates of immigration. Annual net overseas migration in the year to March 2024 was 509,800 people, down from a peak of 559,900 in September 2023 (ABS, 2024). A lot of these migrants may have English as a second language and little understanding of the Australian regulatory regime.

Financial literacy is important as it could be argued that if individuals do not understand financial products and personal insurance products; in particular, they may be less likely to purchase appropriate levels of personal insurance to protect themselves adequately. Especially since the purchase of insurance requires, amongst other things, an understanding of legal obligations, risk assessments and probabilities. Financial literacy can also be important to ensure individuals know their rights (and obligations) and are not exploited by insurance companies (Kubitza, Hofmann, Steinorth, 2019). However, there is very little research that has been conducted in the area of insurance literacy, as financial literacy mainly focuses on saving and investment (Allodi, 2021).

Insurance literacy can be defined as the ability to make informed judgements and take appropriate actions about the current and future management of insurance. There are several studies published about financial literacy and insurance literacy, which suggest that illiteracy in these areas could affect decision-making processes in relation to personal insurance purchase. However, Huston (2010) points out that less than one-third of financial literacy and financial education studies considered insurance and risk management topics. This notion was also supported by a more recent study conducted by Lin *et al.* (2019), which suggests that financial literacy does not necessarily translate to insurance literacy.

Sanjeewa and Hongbing (2019) state that insurance literacy is strongly associated with underinsurance, and they suggest that increased education about insurance products could lead to more individuals changing their behaviour, which may positively affect their financial well-being.

Bongini *et al.* (2023) conducted a study where they concluded that participants with higher insurance literacy have higher levels of participation in the insurance market and, as a result, purchase personal insurance more compared to those with low insurance literacy.

A study focusing on individuals with limited financial literacy determined that uncertainty about insurance payouts can result in a decrease in demand for insurance, driven by risk aversion and risk preferences (Kubitza, Hofmann, and Steinorth, 2019). This is important to appreciate as loss aversion can result in greater value being allocated to giving up something now than the



potential utility gained in receiving something in the future (Tversky and Kahneman, 1981). Relating this theory to personal insurance, individuals may be willing to take a chance that they will not suffer any negative events rather than spending money now to pay insurance premiums. This could be the case, but if the catastrophic event takes place, it would probably cause much higher financial losses than the premiums paid.

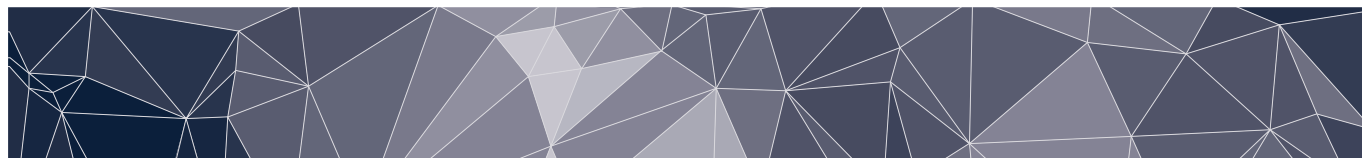
Also, if personal insurance and the decision process around it is considered difficult (due in part to low personal insurance literacy), then Simon's (1955) idea of bounded rationality may play a part. This describes the choice processes that are as rational as they can be, given the limitations on the amount of information humans can process. Therefore, if individuals are not knowledgeable on a topic, such as insurance literacy, they may not purchase the appropriate coverage, despite rationally weighing the options.

There is mixed evidence about the purchase of insurance and financial (and insurance) literacy. In a study in China, there was a positive association between financial literacy and whether people held life insurance (Wang, Zhang, Guariglia and Fan, 2021). In a Sri Lankan study of 300 middle-class consumers, a positive link was found between insurance literacy, trustfulness and perceived value of insurance and whether insurance was purchased (Weedige, Ouyang, Gao and Liu, 2019). This study concluded that individuals with higher insurance literacy will have greater trust and see more value in insurance. Such an understanding can lead to a greater intention to purchase personal insurance products.

Research that has considered personal insurance demonstrates areas of concern. For example, a recent market survey demonstrates that nine out of ten Australians do not understand life insurance, and 49% of respondents incorrectly believe that IP insurance provides a payout when they lose their job for any reason (Lin *et al.*, 2019).

Sanjeewa and Hongbing (2019) suggest that financial knowledge and skills gained through education and experience influence a person's insurance literacy. In explaining this, the researchers provide various examples, such as if someone struggles with basic insurance and financial knowledge and skills like arithmetic, this person will most likely have problems with insurance literacy. However, they also point out that high literacy or knowledge levels may not necessarily be a guarantee that an individual would make desirable decisions about insurance, because insurance decisions are often influenced by factors such as life experience, perceived risk, emotions, social and cultural factors, economic context and behavioural biases. Sanjeewa and Hongbing (2019) also highlight the fact that while an insurance purchase should be a rational decision, individuals generally do not understand probabilities, treat gains and losses symmetrically or understand low-probability loss events well and often allow emotions to influence their decisions. Consequently, this is a multi-faceted issue.

A potential way to increase insurance literacy was suggested by CoreData (2014). A survey study conducted with Australian consumers discovered that those individuals who obtained advice from financial advisers were more likely to be insurance literate, because financial advisers can explain insurance mechanism and its importance to their clients, and as a result, encourage clients to make decisions about insurance with confidence (CoreData, 2014). Sanjeewa and Hongbing (2019) also suggest that when individuals obtain higher level of understanding of insurance products, they are more likely to realise the value of insurance and make more informed decisions. It was further suggested by Sanjeewa and Hongbing (2019) that insurance illiteracy



is strongly associated with underinsurance and that if individual's insurance literacy levels were increased, it would positively reflect on their financial well-being.

This article details a study to obtain a more in-depth understanding about personal insurance from the perspective of financial advisers and consumers. While there is some research into general insurance, there is very limited academic work carried out in relation to the personal insurance.

3. Research Methodology

This research utilises semi-structured interviews with informed participants (financial advisers and consumers (Fowler and Mangione, 1990). The interviews with informed participants occurred because they were seen as possessing specialised knowledge, which assisted in answering the research questions (Schmitt and Klimoski, 1991).

The interviews with consumers were conducted after the results from the first round of interviews with informed participants were analysed. Similarly, consumers were asked semi-structured questions and were encouraged to elaborate and explain their answers in more detail. Participants were also asked to discuss their understanding of the insurance industry and personal insurance products. Participants were also encouraged to ask questions about insurance and talk about any cases of personal insurance claims that either happened to them personally or to their friends and/or family. The interviews were taped with the permission of the respondents, with the recordings deleted after the information was transcribed and analysed. The length of each interview varied between 30 minutes to one hour.

3.1 Analysis approach

Content analysis was the central analysis approach, which has been defined as a technique for systematically describing the form and content of written or spoken materials (Sommer and Sommer, 1991; Tharenou, 2007). Holsti (1969, p. 14) described content analysis as: 'any technique for making inferences by objectively and systematically identifying specified characteristics of messages.' In this article, content analysis is interpretive in nature and deductive, which means that the data is assessed against prior theory and formal hypotheses (Tharenou, 2007). Interview transcripts were thematically analysed through iterative deductive analysis to generate a set of key categories drawn from the interview participants' responses. These themes were first generated from the collective data set and then also from responses to the specific interview questions that aligned to each of the research questions. This also allowed for each of the categories to relate to each other in dual and multiple interrelated constructs to tell a story in relation to each of the research questions.

Reliability of data is an important issue to consider. One way to improve the reliability of data is to keep the identities of the respondents anonymous. This can encourage participants to feel more comfortable while disclosing sensitive financial data and provide honest information. Participants were also probed, and the findings of the consumers were compared to findings of the informed participants. Furthermore, the findings were contrasted to the prior literature and research.

Additionally, it is important to acknowledge that there is the potential for an inherent bias with the lead interviewer. To guard against such bias, the interviewer recognised and set aside her presuppositions and adopted a non-biased attitude during the interviews and analysis. This was also the case during the construction of categories and themes.

3.2 Participants

All interviews with informed participants and consumers were conducted face-to-face, and Research Ethics approval was obtained prior to commencing the interviews. The participants were advised that they would not directly benefit from the interview or the findings and that there would be no financial gain generated from the interview. Informed participants were sourced through industry contacts, professional organisations, and banks. This process led to interviews with 30 informed participants being conducted in Brisbane and the Gold Coast areas of Queensland, Australia. Table 1 illustrates the demographics of respondents, which consisted of 18 males and 12 females aged between 25 and 50, with the majority of respondents being aged between 25 and 40 years. The reason why female respondents represented only 40 percent of the total sample population could be due to financial planning still being a very male-dominated profession (Walters, 2019). The respondents were a mix of bank employees and either owners or employees of independent financial planning businesses.

Consumer participants were sourced using convenience sampling (through the personal network of the researchers, including workplace, family, friends, and neighbours). Interviews with consumers were conducted in Brisbane and the Gold Coast areas of Queensland, Australia. There were 40 consumers in total interviewed. This number was considered to be appropriate to gain an initial understanding of consumer attitudes towards personal insurance.

Table 2 below illustrates the demographics of consumers, with individuals being from different industries: holding professional/qualified jobs, secretarial/clerical positions, non-professional jobs

Table 1. Interview Participants – Informed participants (financial advisers)

Respondent #	Gender	Employment Type	Respondent #	Gender	Employment Type
1	Male	Bank employee	16	Female	Bank employee
2	Male	Bank employee	17	Female	Private FP firm, employee
3	Male	Bank employee	18	Male	Bank employee
4	Male	Bank employee	19	Male	Bank employee
5	Male	Private FP firm, owner	20	Female	Private FP firm, employee
6	Male	Private FP firm, employee	21	Male	Private FP firm, owner
7	Female	Bank employee	22	Female	Bank employee
8	Male	Bank employee	23	Female	Private FP firm, employee
9	Male	Bank employee	24	Male	Private FP firm, employee
10	Female	Bank employee	25	Female	Private FP firm, employee
11	Female	Private FP firm, employee	26	Female	Bank employee
12	Male	Bank employee	27	Male	Private FP firm, employee
13	Male	Bank employee	28	Male	Bank employee
14	Female	Private FP firm, employee	29	Male	Private FP firm, owner
15	Male	Bank employee	30	Female	Private FP firm, employee

Note: This table contains summary information on the informed interview participants.

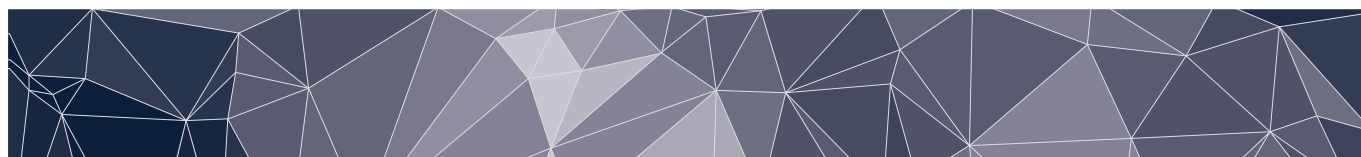


Table 2. Interview Participants – Consumers

No. #	Gender	Age	Occupation	Highest level of education	Insurance types currently held
1	Male	25-34	Student and crowd control	Year 12	Contents, car
2	Female	35-44	Art teacher	Bachelor degree	Car
3	Female	45-59	Housewife	Year 10	House, contents, car, life (outside super)
4	Male	35-44	Traffic controller	Year 9	Contents, car, life (outside super)
5	Female	25-34	Child educator (child care)	Cert 4 in child protection	Car
6	Male	25-34	Driver	Cert 2	Car
7	Female	45-59	Airport officer	Year 10	House, contents, car, life, TPD, IP, trauma (all outside super)
8	Female	45-59	Admin assistant	Year 10	House, car, life, TPD (both within super)
9	Female	45-59	Lecturer	Graduate diploma	House, contents, car, TPD (outside super), trauma
10	Female	25-34	Admin officer	Cert 4 in office admin	Contents, car, life, TPD, IP (outside super)
11	Female	25-34	Admin officer	Year 12	Car
12	Male	60-69	Company director	Diploma of fin services	House, contents, car, life, TPD, trauma (all outside super)
13	Male	35-44	Business owner – Subway	Bachelor degree – Business	House, contents, car, business insurance, life, TPD (all within super)
14	Female	35-44	Admin officer	Bachelor degree	House, contents, car
15	Female	25-34	Admin adviser	Bachelor degree	Car
16	Female	25-34	Unemployed	Cert 2	No cover
17	Male	35-44	Academic staff	Master degree	Contents, car, life (within super), IP and trauma (both outside super)
18	Female	25-34	Admin officer	Bachelor degree	Car
19	Male	25-34	Engineer	Bachelor degree	House, contents, car, life, TPD, IP (three within super)
20	Female	45-59	Housewife	Bachelor degree	No cover
21	Male	35-44	Scientist	PhD – marine biology	Car, contents, life (within super, does not coverage)
22	Male	60-69	Pensioner	Bachelor degree –	No cover
23	Male	35-44	Medical doctor	Master degree	House, contents, car, life, TPD (both within super), IP, trauma (outside super)
24	Male	25-34	Plumber	Year 12	House, contents, car, life, TPD, IP (three within super)
25	Male	18-24	Student - uni	Year 12	Car, contents
26	Female	35-44	Beautician	Cert 4	House, contents, car, life (within super, does not know coverage)
27	Male	45-59	Nurse	Bachelor degree	House, contents, car, life, TPD (both within super, does not know coverage)
28	Male	25-34	Medical doctor	Bachelor degree – medicine	House, contents, car, life, TPD (both within super)
29	Male	35-44	Project manager	Master degree	House, contents, car, life, TPD (both within super), IP (outside super)

(Continued)

Table 2. Continued

No. #	Gender	Age	Occupation	Highest level of education	Insurance types currently held
30	Female	45-59	Hairdresser	Year 12	Contents, life (within super, does not know coverage)
31	Male	35-44	Dentist	Bachelor degree	House, contents, car, life, TPD, IP (three within super)
32	Male	45-59	Business owner – Restaurant	Bachelor degree	House, contents, car, business, life, TPD, IP (three within super)
33	Female	35-44	Business owner – Hairdressing	Cert 4	House, contents, car, business, life, TPD, IP (three within super)
34	Male	45-59	Veterinarian - business owner	Master degree	House, contents, car, business insurance
35	Female	25-34	Lecturer	PhD – finance	House, contents, car, life, TPD, IP (three within upper)
36	Male	45-59	Business owner	Year 12	House, contents, car, business insurance
37	Female	18-24	Bank teller	Year 12	Car, contents, life, TPD (both within super, does not know coverages)
38	Male	35-44	Lawyer	Master degree	House, contents, car, life, TPD, IP (three within super), trauma (outside super)
39	Female	60-69	Pensioner	Bachelor degree	House, contents, car
40	Male	18-24	Sales assistant	Year 12	Car, contents

Table 3. Interview Participants – Consumers: Insurance types and method of holding insurance

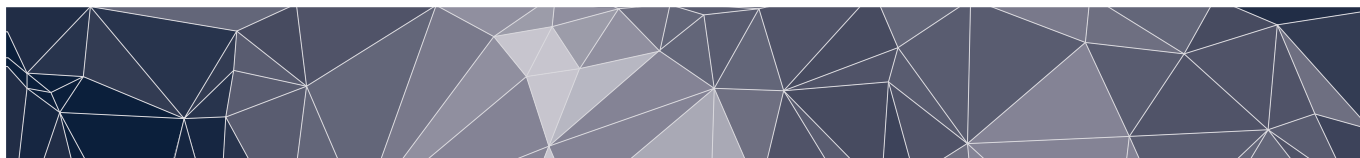
Insurance type	Ownership within a superannuation fund	Ownership outside a superannuation fund	Total
Life insurance	18	5	23
TPD insurance	14	4	18
IP insurance	9	5	14
Trauma insurance	Not offered within a superannuation fund	6	6
House/building insurance	N/A	23, which represents 100% of those who owned a house	23
Contents insurance	N/A	31	31
Motor Vehicle insurance	N/A	36	36

3 consumers did not have any insurance at all

and business owners. The respondents consisted of a mix of unemployed, homemakers, students and full-time or part-time employees from various industries, married and single, with and without children, immigrants and individuals born in Australia, females and males of different age groups and educational backgrounds.

Table 3 below illustrates how many respondents had personal insurance products and whether they were held inside or outside a superannuation fund. For comparison purposes Table 3 also illustrates that more individuals held general insurance products.

The results are discussed in the section below.



4. Results

The findings from the interviews will be presented using thematic analysis from interviews with both groups of participants. This section will discuss personal literacy in relation to four personal insurance products: life insurance, TPD, trauma insurance and IP insurance.

4.1 Personal Insurance Literacy - broadly

All informed participants said that most individuals have very poor knowledge about personal insurance products. It was indicated by informed participants that most individuals who see financial advisers do not know much (or have never heard) about trauma insurance. If individuals have heard of this insurance type, they mostly think that it is part of life insurance. It was indicated that most individuals have heard of IP insurance and have some knowledge about this product. However, according to the informed participants, the knowledge is somewhat incorrect because many individuals think that IP insurance will cover them if they lose their job for reasons other than injury, disability and sickness. When it comes to TPD insurance, many individuals have this coverage within their superannuation funds. However, they may not have a good understanding of it. For example:

“I think a lot of people know about Life insurance...it's fairly easy to understand, you are either dead or alive. Income Protection ... some people will have a bit of an idea about it, but it's more around when they can claim that I find they don't have any idea about it. A lot of people seem to think that Income Protection will just pay out if they lose their job, but it is not there for that....I think they have some idea about TPD, with Trauma it is very rare for people to know it actually existed” (Informed participant 8, male).

Largely consumers echoed the observations of the informed participants:

“I generally know what they are about, but not completely informed....Life insurance is in case of death...until today I was not familiar about TPD.....I know about Income Protection, it's a cover just in case a person would lose work due to sickness or injury, but don't know more details.... I have never heard of Trauma cover” (Consumer 1, male).

4.2 Improving literacy

When asked how knowledge could be improved, many informed participants said that while advertisements on television could increase the ‘awareness’, it is not clear to what extent this would increase understanding. When asked if they think that materials published by universities or other institutions (such as Technical and Further Education (TAFE) schools or other private education providers) would be perceived by the general public as being independent and helpful, most respondents stated that this would be a great idea. This raises a slightly different issue, which is the credibility of information. When asked if they are prepared to participate in increasing the knowledge of the general public, all informed participants said ‘yes’, although failed to identify how exactly they would do it apart from expressing the need to educate their clients. All financial advisers stated that they educate their clients about the importance of



personal insurance. However, when asked further about how members of the general public who do not go to financial advisers (and, as a result, may not obtain necessary knowledge about personal insurance products) could be educated, informed participants generally considered advertisements on television. For example:

“I think TV advertisements are very good in terms of creating awareness. We can talk to those clients later when they come into the branch and educate them further about the importance of personal insurance...Well for those people, who don't see financial planners, well I am not sure how their knowledge could be increased, yeah, but I think advertisements on TV are good at creating the awareness” (Informed participant 15, male).

This discussion raises the difference between ‘awareness’ and ‘understanding’ of the different types of insurance. Television advertisements are more about awareness than education. It appears that actual understanding may not occur until seeing a financial adviser or a claim is made, and by that time, it could be too late. It appears advertisements are designed to sell the product instead of actually educating individuals. Consequently, education could require other strategies.

However, consumers’ answers differed from the ones provided by the informed participants. Most consumers stated that their knowledge could be improved with ‘educational’ advertisements on television or radio. They highlighted that currently there are many insurance advertisements on television, but these are only directed at selling insurance products, with any educational aspect being non-existent. They also added that it would be beneficial if independent bodies, such as universities, got involved in publishing educational materials which could be distributed to the public through the internet and the public media. Consumers explained further that they would perceive advertisements by the insurance industry as being ‘sold’ a product, whereas any educational information provided by an independent party would be highly regarded. It can be seen that ‘independence’ appears to be a big issue in terms of education; this could be connected to trust or ‘lack of trust’ when it comes to insurance broadly (Driver *et al.* 2018).

Another way to increase the knowledge of the general public, as suggested by informed participants and consumers, was to introduce some courses at the school level in either years 10, 11 or 12 which would introduce students to the basics of risk management and discuss different types of insurances. They also suggested that it would be useful to provide free seminars in workplaces to increase individuals’ awareness in relation to personal insurance.

It was interesting to note that no consumers mentioned seeing a financial adviser to increase their knowledge about personal insurance products. This raises a question as to why individuals do not consider financial advisers as a helpful and reliable source to obtain information about personal insurance. Is it that consumers are not aware that financial advisers are considered to be the most appropriate professionals to approach in relation to personal insurance? Or maybe the real problem is that financial advisers are not perceived to be independent providers of advice by the general public because financial planning could be seen as a ‘sales job’ rather than professional advice and education. This was a sentiment raised by informed participants as they try to balance what they do:

“I see my role as an educator, more than a salesperson, and I try to work from that perspective with the people I see...” (Informed participant 7, female).



Overall, this would suggest that independence is perceived by consumers as critical to improving personal insurance literacy, whether it is via university research, high school curriculum or government bodies. This independence appears to adversely affect the perception of financial advisers to assist in improving this knowledge.

Below is a detailed summary of the individuals' knowledge in relation to the four types of personal insurance considered.

4.3 Personal insurance literacy - Life insurance (death component)

All consumers stated that they have 'heard of' life insurance and knew that it pays a certain amount of money upon the insured's death. However, for most consumers their knowledge of life insurance was limited, and they could not provide any further details about this cover when asked more questions:

"I have heard of life insurance...It pays in case of insured's death...I don't know any further details about this cover" (Consumer 26, female).

Even though most consumers have 'heard of' life insurance, not all of them had this cover. For those respondents with stable employment, most had some amount of life insurance within their superannuation funds, but it did not mean that they had a thorough knowledge of it. Consumers who changed jobs frequently ran a risk of not having adequate life insurance coverage within their superannuation funds. This is because most superannuation funds offer some life insurance cover; however, premiums are deducted from the money available in the account and, as a result, deplete the balance. When balances in those superannuation funds are less than \$200, the money can either be distributed to the account holder as a cash payment or transferred to Eligible Rollover Fund (ERF). Either way, the insurance component will be lost (Industry Fund Services, 2018). Even though some of the above-mentioned respondents understood the importance of life insurance policies, they still chose not to obtain this cover outside of their superannuation fund.

4.4 Personal insurance literacy - Total and permanent disability (TPD) insurance

Over sixty percent of consumers interviewed (25 out of 40) had not heard of trauma insurance, and they were also very confused about TPD insurance and what conditions it covers. In particular, 16 consumers thought that TPD insurance was an addition to life insurance:

"I am not sure about this cover; I think it is an addition to life insurance, not sure" (Consumer 26, female).

Consumers who had TPD insurance stated that they did not have a thorough knowledge about this type of insurance but had it mainly because it was provided within their superannuation fund and premiums were paid by funds in their superannuation accounts and, as a result, did not negatively affect their immediate cash flow. The limited knowledge about TPD insurance was also apparent when consumers admitted that they were not aware of the fact that their life insurance payout will be decreased if they have made a claim on



their TPD insurance policy, as TPD insurance is generally not a stand-alone policy within a superannuation fund. It appears that holding insurance within a superannuation fund can help address concerns about not holding personal insurance, although consumers still appear to have low level of personal insurance literacy, which then brings into question whether the insurance is adequate.

4.5 Personal insurance literacy - trauma insurance

Twenty five out of forty (62.5%) consumers stated that they have 'never heard' of trauma insurance and that they thought this kind of insurance could not possibly exist:

"I've never heard of that one.... never thought this cover could exist" (Consumer 1, male).

Some consumers were confused between trauma insurance and private health insurance and thought they were very similar, if not the same. In particular, respondent 11, when asked what insurance she would choose if she could afford it, said that she would definitely include dental cover in her trauma insurance. This indicates that potentially there could be many individuals who are unaware and/or very confused about what trauma insurance is and how it differs from private health insurance.

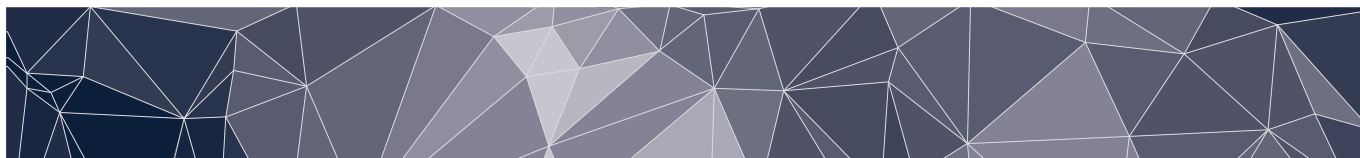
However, the possession of knowledge did not necessarily lead to someone purchasing trauma insurance. In particular, respondent 13 had a thorough understanding of trauma insurance, but chose not to have it, although admitted that he should get it in the near future:

"I know what trauma cover is and what it is used for, but I chose not to have it simply because I did not have enough time to get around to it, but I know that I need to get it in the near future, it's definitely on my list of things I need to do" (Consumer 13, male).

It is worthy to note that only six out of 40 (15%) interviewed individuals reported having trauma insurance, and it appears to be the least likely personal insurance held.

4.6 Personal insurance literacy - Income protection (IP) insurance

When it came to IP insurance, most consumers had 'heard' of this cover, although only 14 (35%) of them had it. The knowledge about this type of insurance was generally very limited with respondents being able to identify that some amount of money would be paid to them in case they are unable to work. However, the main misconception that respondents had was the fact that they thought that IP insurance would pay when they are unable to work due to *any* reason. The fact is that this particular cover generally only pays when a person is not able to work due to injury or disability and not because he or she was dismissed, was made redundant or lost their job for any other reason. For those consumers who had IP insurance, most were not able to clearly explain what their waiting and benefit periods were or the circumstances under which they would be paid funds if they made a claim. Out of individuals who had IP insurance only 50 percent (7 out of 14) consumers had a thorough knowledge about it. Approximately two-thirds (26 out of 40) of consumers did not have IP insurance either within superannuation or as a separate policy outside of their superannuation fund. Respondents 13



and 16 were the exceptions, as they had a thorough knowledge of IP insurance but voluntarily chose not to have it:

“I know all about income protection, but don’t have it. Again, same as trauma, it is definitely on my list of things I need to do” (Consumer 13, male).

“I have a thorough knowledge about income protection and think it is important, but I don’t have it simply because I don’t work now, but once I am back to work and can afford it, I will definitely have it again” (Consumer 16, female).

These quotes demonstrate that knowledge is not the only factor driving insurance purchase decisions, but also other factors such as procrastination, cost and actual need influence the purchasing decision.

The fact that only nine (including Consumers 13 and 16) out of 40 respondents (22.5%) had a thorough knowledge of the intricacies of IP insurance potentially indicates that more work needs to be carried out in education. It is interesting to note that five out of seven of those consumers who had IP insurance outside of a superannuation fund had it organised through a financial adviser. However, the majority of consumers who had IP within their superannuation fund appeared not to have adequate knowledge about it. This could suggest that some superannuation funds fail to provide a thorough explanation and education to their clients. However, seven other respondents who had IP insurance and a thorough knowledge about this policy were obviously well informed by their financial adviser and/or insurance companies. This suggests that financial advisers can play an active role in improving consumers’ insurance literacy. It needs to be kept in mind that when an individual is employed by an organisation, very often his/her/their personal insurances are automatically organised by their superannuation fund. The important question is who has the responsibility to provide information and education about the insurance policies to the insured individual and, more importantly, to ensure their full understanding. Is it the responsibility of the superannuation fund, the insurance company or the consumer themselves?

While the default option to have some personal insurance products within a superannuation fund can help alleviate the cost burden, the level of knowledge about personal insurance products appears to be lacking. Such a low understanding could lead to under- or over-insurance and a false sense of security about what individuals are actually covered for.

5. Limitations and Conclusions

Overall, it can be concluded that individuals generally have a very limited knowledge about personal insurance products, particularly about trauma, IP and TPD insurance. The lack of knowledge about personal insurance and, as a result, decreased perception of its value or importance appears to have some relationship with the purchase of these covers. This indicates that there could be a relationship between knowledge, appreciation and importance, which then leads to discussions about purchasing behaviour. This finding is supported by other researchers (Weedige, Ouyang, Gao and Liu, 2019).

The findings indicate that when knowledge increases, understanding of the importance of these products also increases. Consequently, it is suggested that methods to improve knowledge need



to be further explored. Future research could explore the understanding of general insurance and compare it to personal insurance. Additionally, future research could seek to measure personal insurance literacy and see if this is related to insurance held. Another area of further exploration in relation to insurance literacy improvement is the role of the rapidly developing technology landscape. For example, Srivastava *et al.* (2024) point out a range of benefits and enablers of technological adoption in insurance. They also note inhibitors to such adoption as well as the “grossly under-represented” (p 307) life insurance industry in the literature. This suggests there is an opportunity to explore if and how these advances could improve client engagement, education and literacy.

Also, in terms of trying to improve personal insurance literacy, independence appears to be fundamental, as consumers are concerned about being ‘sold a product’ rather than education. Also, while consumers who had dealt with a financial adviser appeared to have greater insurance literacy, other consumers did not readily identify advisers as a potential source to improve their knowledge. This would suggest that the potential value provided by financial advisers when it comes to insurance may need to be better communicated to consumers. Further, recent regulatory changes mandating professional standards (education and ethics requirements) may further assist in the recognition of financial advisers as trusted professionals.

A number of limitations were evident in this research that should be acknowledged. Firstly, general insurance was not explicitly examined, and there was a small number of interviews (although saturation point had been reached with similar themes arising from interviews). A second limitation was that interviews with informed participants and consumers were carried out in two geographic locations: the Gold Coast and Brisbane. This may not necessarily be representative of the whole Australia. Additionally, the use of convenience sampling for consumers may introduce some bias and limit the generality of the findings. However, the overall spread of the demographics of the participants provided a good representation of the Australian population.

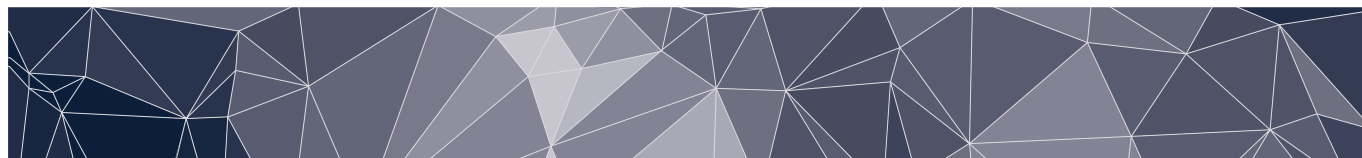
Finally, this research is based on sensitive information relating to individuals’ insurance literacy. It is likely that some individuals could have answered in a way that inflates their ability/knowledge/possession of personal insurance policies due to being self-conscious or ashamed of their true capabilities.

Insurance literacy was very low among the interviewed consumers, which was further confirmed by the interviewed financial advisers. Low insurance literacy is of concern, as this may cause individuals to make damaging decisions and, as a result, be underinsured or not insured, which can have many negative effects on an individual and society. Since insurance illiteracy increases the possibility of underinsurance and non-insurance, increasing financial and insurance literacy is an important first step in reducing underinsurance and non-insurance among the general population.

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