

FINANCIAL
INCLUSION
TASKFORCE

Insurance Working Group

June 2008

***Report on findings into insurance and financial
inclusion***

Background

1. In March 2007 the Government published '*Financial Inclusion: the way forward*'. This document announced the Government's intention to widen the scope of its financial inclusion strategy to include consideration of insurance products, and asked the Financial Inclusion Taskforce to conduct analysis into three key issues:

- which types of insurance are most needed by financially excluded customers;
- the barriers, including cost, to excluded customers taking these insurance products up; and
- how these barriers might be overcome, drawing on evidence on the success of insurance with rent, and risk-reduction projects.

2. To work towards these objectives, the Taskforce set up an Insurance Working Group (IWG) comprised of representatives from the insurance industry and the Association of British Insurers (ABI). The IWG has met four times and has established a work programme to examine issues around insurance and financial inclusion, including developing a research programme to further the evidence base.

3. The Taskforce has commissioned primary qualitative research to explore the barriers financially excluded people face or perceive they face to taking out home contents insurance (HCI) and how these barriers could best be tackled. The Taskforce has also commissioned research to establish the availability of appropriate home contents insurance via social landlords. The findings from the research projects have informed development of this paper, in addition to desk-based secondary research and meetings with insurance stakeholders.

4. The purpose of this paper is for the Financial Inclusion Taskforce to report to Government the findings of its consideration of insurance in financial inclusion policy across the three areas highlighted above. This paper builds on an interim report which was submitted to the Government in November 2007 to influence development of the Government's financial inclusion action plan.

Which types of insurance are most needed by the financially excluded

5. In October 2007 the ABI published research into low-income consumers' demand for insurance and their experience in accessing insurance.¹ The Taskforce is grateful to the ABI for sharing this research in advance of publication. This research has informed both Taskforce and IWG thinking on which types of insurance products are of most relevance to those currently excluded. The table below shows findings around the demand and take up of

¹ *Financial inclusion and insurance: meeting low-income consumers' needs*, ABI, 2007

different insurance products for those living on very low (under £10,000 household income p.a.) and low incomes (between £10,000 & £15,000 household income p.a.).

Type	Demand - quite/ very important (v. low income)	Take up (very low income)	Demand - quite/ very important (low income)	Take up (low income)
Home Contents	79%	44%	83%	61%
Buildings ²	31%	12%	47%	23%
Motor ^{3 4}	99%	95%	97%	98%
Life	55%	24%	61%	37%

6. On the basis of this evidence, the IWG concluded and has advised Government, in its interim report, that the initial focus of policy to promote the take-up of insurance should be home contents insurance (HCI). This is simultaneously amongst the most demanded and least accessed types of insurance amongst low and very low-income households. The floods in 2007 have, unfortunately, served to highlight the importance of home contents insurance.

7. The case for the Taskforce looking at life insurance is less clear. From the ABI research, low life insurance take-up is evidently not restricted to lower income respondents, with only 52% of average income respondents holding cover. However, demand for life insurance cover amongst lower income respondents is relatively strong, with over half of the very low-income respondents prioritising cover.

8. For payment protection insurance (PPI) the ABI research shows that both take-up and demand is low across all income groups, but particularly amongst lower income households. Given this factor, combined with the fact that lack of access to mainstream credit remains a key issue for financial inclusion policy, it is argued that insurance protecting mainstream credit repayments should be a secondary consideration for the government's financial inclusion policy.

9. The Competition Commission is currently conducting an investigation into the UK PPI market and it published its provisional findings in June 2008. This report finds that companies face little or no competition when selling PPI to their credit customers and as a result customers appear to be overcharged by over £1.4 billion a year. The Competition Commission has also published a wide-ranging list of potential measures to increase competition in the PPI market. The

² 10% of very low income households are owner occupier; 22% of low income households are owner occupier

³ 65% of very low income households do not own a car; 40% of low income households do not own a car

⁴ Car owners only

Competition Commission expects to publish its final report in November/December 2008.

10. The issue of whether PPI products have a potential financial inclusion impact will be revisited by the Taskforce after the Competition Commission has reported its final findings.

11. Taking all these considerations into account, the IWG decided to concentrate its initial efforts on HCI. Life insurance and other forms of insurance will be kept under review. Financial inclusion stakeholders and contacts in the insurance and wider financial services markets have endorsed this approach.

The barriers to excluded customers taking up HCI

12. To examine the barriers to take-up of HCI, the IWG has conducted a review of existing studies, to identify relevant results and policy recommendations. The majority of the existing research is focused on initiatives targeted at social housing tenants and take-up of HCI. The IWG, therefore, commissioned primary qualitative research to understand the attitudes of low-income consumers, particularly around the issue of affordability, concentrating on the privately rented and owner-occupied section of the market.⁵

13. This research comprised six qualitative discussion groups and nine in-depth interviews with people who participated in the discussion groups. The research covered geographical areas that were and were not affected by the summer floods of 2007. All participants in the research were from households with less than £15,000 annual income and had a variety of backgrounds, including housing tenure, and experience of HCI. The full report for this research is published alongside this paper on the Financial Inclusion Taskforce website.

14. At the same time, the IWG, working through its members, has sought to increase understanding of the current supply of HCI products serving low-income consumers, and to consider whether there are particular insurance “blackspots” where cover is limited due to high levels of risk from e.g. flooding or crime. This research has enabled the IWG to further consider the barriers to take up on both the demand and supply sides.

15. Finally, the Taskforce and its secretariat have also conducted numerous meetings with insurance stakeholders and intermediary organisations. The Taskforce considers that sufficient evidence has been gathered from the research agenda to inform the findings and recommendations of the IWG. The summary findings are presented below.

⁵ *Financial Exclusion and Home Contents Insurance, Financial Inclusion Taskforce, 2007*

Summary of Findings

16. This section summarises the findings so far of ongoing IWG research. Key conclusions are that there are barriers on both the demand and supply side.

17. These supply and demand barriers are highly concentrated for those living in rented accommodation, either social or private. These groups correlate strongly with vulnerability to other forms of financial exclusion. The financial exclusion issues facing those in social versus private accommodation can also be very different.

- **On the demand side**, low take-up of insurance (including HCI) correlates strongly with low levels of income and asset ownership (including rented housing tenure).
- This means that by far the most often stated reasons for not having insurance are around cost and affordability.
- However, affordability as a barrier needs to be unpacked to distinguish between those, for example:
 - who cannot afford HCI at any price;
 - who think they cannot afford HCI, but are unaware of cheaper no-frills products; and
 - who think they cannot afford HCI, but would change their mind if they were more aware of the benefits.
- In short, affordability as a label often hides the impact of other barriers. The true barrier may well be a *perception* of lack of affordability, which can be overturned once products and prices are discussed in greater detail. Indeed, the Taskforce's qualitative research found that some of the participants' estimates of the cost of HCI premiums were vastly inflated, indicating there is a gap between the actual and perceived cost of insurance for some.
- A perceived lack of relevance was cited as a barrier by a number of participants in the Taskforce's qualitative research. Several respondents reported that it had never occurred to them to think about HCI and they did not believe it was relevant to them. A number of participants in the research also felt that they did not need HCI and that the cost would not be worth what they perceived as being a very uncertain and hard to value benefit.
- Trust and confidence in financial products, HCI in particular, and bad experiences from previous claims, either personally or anecdotally, also deterred people from taking out HCI. Very few respondents believed that insurance companies played a role in protecting individuals. Participants

were also genuinely afraid of the 'small print' and what it may mean for them in the event of a claim.

- Other barriers on the demand side include apathy and a lack of understanding of HCI products.
- **On the supply side**, barriers are predominantly around lack of suitable products to serve the needs of excluded customers, and lack of effective marketing of these products to increase awareness and take up.
- Product design issues include distribution channel, payment method, payment frequency, and nature and amount of cover (too high or too low).
- Dislike of internet or telephone communication was cited as a cause of frustration by some respondents in the Taskforce's qualitative research. There was a perception that taking out HCI online often qualifies the policyholder for a substantial discount, which means that lower income people feel they are indirectly penalised for preferring 'face to face' sales. In addition, many participants lived in mobile-only households, which can make phoning 0845 insurance help-line numbers expensive.
- For social renters, insurance with rent and other products exist that address many of the supply side issues. While not perfect these products go a long way to meeting the need. However, take-up remains low where offered by social landlords, suggesting that marketing is a problem, and barriers on the demand side need also to be overcome.
- Participants in the Taskforce's qualitative research were given some broad-brush information about the 'with-rent' and 'arms length' schemes promoted by some social landlords. The flexibility around payment methods and timings was well received by participants. Some participants did, however, have concerns around the schemes' reduced risk cover – i.e. not providing cover for accidental damage, high value goods or possessions outside the home, and the relatively low level of cover offered.
- In areas where social landlords do not offer their tenants any appropriate home contents insurance products, this lack of supply is clearly the first issue that needs to be addressed.
- For private renters, supply issues are more fundamental. These range from:
 - a lack of products at the lower price range covering lower sums assured;
 - a lack of affordable products for those in shared rented accommodation; and

- a lack of targeted marketing, especially at the young who may have inherited insurance good practice e.g. from their parents, which is not subsequently embedded.
- Co-operative Financial Services offered to conduct analysis into whether HCI is available, and at what price, for people who live in areas deemed to be at risk of social exclusion. The analysis was performed using contents sums insured of £3000, £5000, £15,000 and £20,000. Each of these were run against 185 postcodes, which were supplied by HM Treasury as being at risk of social exclusion. This analysis was performed for replacement ('new-for-old') cover and for indemnity ('like-for-like') cover.
- The results showed that all postcodes were able to obtain an insurance quote. The findings did, however, show a large disparity between the average and the least costly, which shows that customers should shop around to get the best deal. The study also showed that products to cover insured sums of £3,000 and £5,000, particularly for indemnity cover were often not available. Subsequent analysis by Royal and Sun Alliance (R&SA) shows that the lowest minimum sum assurance offered by R&SA is £6,000 for people aged over 60 and £9,000 for younger people.
- R&SA has also undertaken research to map the availability of insurance in postcodes at high risk of social deprivation against the perils of flood, arson and crime. The study shows that "very high" risk of these perils does not correlate to the areas of "very high" deprivation. The study concluded that levels of deprivation do not, therefore, hinder availability of insurance.
- The two studies appear to suggest that there is not a significant problem in terms of the availability of insurance in areas with high levels of deprivation and high risk of flood, arson and crime. Both sets of research show that insurance is widely available, and that the more important issue is how to guide the consumer to the product. It should be cautioned, however, that neither study assessed the affordability of the available insurance.
- The Taskforce research interviewed some shared renters who felt that the cost of insuring a shared house was prohibitively expensive and resented the changes that they would need to make their property secure in order for their contents to be covered. These included, for example, putting a lock on every door – including the bedroom doors.

Implications of these findings

18. These findings appear to suggest that there are at least three challenges that need to be addressed in **social housing**:

- encouraging social housing providers to offer home contents schemes to their tenants where they are currently not available;
- finding ways to encourage take-up of such insurance amongst tenants; and
- ensuring that products – those offered to social tenants through landlords or through the open market – are simple, effective, not over-engineered, and meet customers needs.

19. And the challenges which need to be addressed in **private housing** therefore are:

- the lack of provision of appropriate products for this market, which are simple and affordably meet clients' needs in a cost-effective, commercially sustainable way;
- insufficient trusted information on HCI being available to customers, particularly to help them understand what is and is not covered where the consumer is not the homeowner; and
- the need for trusted intermediaries to help, where appropriate, with access to suitable products.

Overcoming these barriers and challenges

20. Following recommendations made by the IWG in its interim report to Government in November 2007, the Government announced that it would launch a financial inclusion Champions initiative, which will seek to promote demand for appropriate financial services. The initiative will provide dedicated members of staff with experience of working on financial inclusion to work with local authorities, social landlords and other potential financial inclusion intermediary organisations to provide:

- expertise and best-practice co-ordination within local authority areas on insurance schemes to make it easier for housing associations and other social landlords (including councils and arms-length management organisations), to establish insurance schemes for their tenants;
- a point of contact for the ABI initiative to promote appropriate insurance products to low income consumers;
- the local intermediary outreach and co-ordination needed to develop the local stakeholder networks on which the "now let's talk money" campaign relies; and
- in line with recommendations from the Financial Inclusion Taskforce, a more strategic link between "now let's talk money" and the local government sector.

Social Housing - Supply

21. Registered Social Landlords (RSLs) are committed to high standards of customer care. One important aspect of this commitment is ensuring access to appropriate insurance, particularly home contents insurance (HCI). The Housing Corporation issued guidance to RSLs in 2001, '*Insurance for All: a good practice guide*', on facilitating access to insurance.

22. A growing number of RSLs offer home contents insurance schemes, including with-rent schemes. Norwich Union and Royal and Sun Alliance operate the two largest with-rent schemes and underwrite around 300 such schemes between them. The National Housing Federation also have a partnership arrangement with Jardine Lloyd Thompson to make contents insurance available to RSL residents at reasonable terms and easy payment methods (although this particular product is not available through rent collection mechanisms).

23. In addition, Zurich Municipal has recently launched a scheme to help widen access to home contents insurance for social housing residents. The costs of insurance under the scheme will be calculated on the number of bedrooms a property has. This removes the need for tenants to calculate an overall value for the home contents, which, if underestimated, leaves them underinsured.

24. Although, such schemes are widely available, only 45% of RSL respondents in the Taskforce's research offer HCI. Organisations provided a variety of reasons for not offering HCI, including the small size of their organisation, not looking into the matter, not having the resources, and being unable to promote the products of a particular company.

25. The IWG considers that Government should utilise the Taskforce's insurance with rent research to focus financial inclusion Champions' activity on increasing the supply of HCI in local authority areas identified in the research as lacking an appropriate insurance scheme.

26. The IWG recommends for social housing HCI supply issues, that:

- **HMT and DWP, working with the industry, to provide the financial inclusion Champions with the necessary tools for delivery, which may include a toolkit, to enable the Champions to confidently develop and deliver consistent actions to improve access to insurance;**
- **the financial inclusion Champions initiative to work with housing associations and social landlords in specific geographical areas to promote and support the supply and take-up of insurance schemes targeted at social tenants; and**
- **work within the insurance industry continues to ensure that available products are appropriate to the needs of financially excluded consumers.**

Private Housing - Supply

27. For those living in privately rented accommodation, there is no ready-made product solution for those who want lower levels of cover on indemnity basis. In addition, evidence from the Taskforce's qualitative research suggests that for those living in shared accommodation HCI products are unaffordable, especially where tenants have no control over issues such as locks or who the other tenants are.

28. The IWG's work and research has highlighted the type of HCI product that low income consumers would like. The IWG's qualitative research in particular, which has been published alongside this report on the Taskforce's website, identifies a number of suggestions from consumers of ways of making HCI more attractive for the low income target market, these include:

- allowance for monthly – or more regular – payment of premiums, in addition to greater flexibility around payment methods, i.e. cash;
- a simple and efficient claims process was important for participants;
- using plain English in the policy and any support documentation as well as clarifying and cutting back on the small print;
- putting together a 'package' of insurance products such as car, contents, buildings insurance if relevant, to make the premiums more affordable for those on a low income; and
- potentially combining payment of premiums with other regular payments, including council tax and utility payments.

29. The IWG considers that the research has highlighted a gap for appropriate low-cost HCI products in the private rented market. The IWG would like industry to develop a product that fits this gap, in a way that is commercially sustainable and meets the specific needs of this customer group.

30. The IWG recommendation for private housing supply side issues, is as follows:

- **that the insurance industry continues to work to ensure that available products are appropriate to the needs of private tenants, taking into account the specific issues they face; and**
- **insurance industry to look at possible partners/intermediary organisations, including local authorities, utility companies and the Post Office, to ensure that these products are more widely available, and to market and sell these products more effectively.**

Social and Private Housing – Demand

31. Addressing supply issues is only part of the solution. As the experience of insurance with rent schemes shows, even where an apparently viable supply-

side solution is implemented, this is likely to be insufficient alone to increase take-up. It has now become a tenet of the Taskforce's work, and policy orthodoxy in the financial inclusion "community", that demand-side issues also need to be addressed.

32. From the customer perspective, understanding of the benefit, relevance, and the available opportunities to access HCI are the key issues that need to be addressed to increase demand. Financially excluded people need support to understand that paying small HCI premiums now can help to prevent serious financial hardship and debt in the future. They also need information on the most relevant insurance schemes available to them.

33. The most effective agents to deliver this support will be intermediaries who come into regular contact with excluded consumers and work for organisations that are known and trusted. These intermediaries are in a position to get key messages through to the excluded consumer in a non-threatening way.

34. For social tenants, the key intermediary is clearly the landlord. It is important that front line social housing staff are able to highlight the benefits of HCI and actively promote schemes that are supported by landlords, both with existing and new tenants. They also need training to deal competently with enquiries about their scheme.

35. For those who live in private rented accommodation, other intermediaries need to be utilised to ensure that private renters are made more aware that HCI is relevant to them and widely available. These intermediaries might include staff in local charities and community centres, or staff at trusted financial service providers such as credit unions, the Post Office or a bank. It may also include those who are providing the housing service to them such as their private landlords, and estate agents.

36. The Government's financial inclusion campaign "now let's talk money", which was established in January 2007, has been working with intermediaries, such as housing associations, charities and community groups to provide them with the information their clients need to access financial services. In its interim report, the IWG recommended that the "now let's talk money" campaign be expanded to include insurance in its brief, which the Government announced in December 2007. The Government also announced that the ongoing "now let's talk money" campaign will be delivered as part of the financial inclusion Champions initiative moving forward.

37. Furthermore, in October 2007, the ABI set out plans to engage in practical activity to promote greater take-up of insurance by people on lower incomes. The lessons learned will be shared throughout the insurance industry and actions will include:

- working with housing associations and local authorities to promote insurance with rent;
- working with ‘trusted intermediaries’ such as credit unions; and
- exploring ways of developing easier payment methods for those on irregular income through working with the industry on payment systems.

38. **The IWG recommendations for demand issues therefore, are that:**

- **Following the recommendations for social housing supply side issues, HMT and DWP should enable financial inclusion Champions to improve access to insurance and work with key intermediaries, including housing associations and social landlords, to increase supply and take-up of HCI; and**
- **the Taskforce should support the ABI initiative to identify and deliver practical steps to promote greater take-up of insurance by people on lower incomes, and urges the ABI and Government to ensure that this campaign joins up with the financial inclusion Champions, FSA and other key national and local stakeholders to co-ordinate activity.**

39. The IWG are acutely aware that the research has suggested that some lower income people have low levels of trust and confidence in the insurance industry.

The IWG recommends, therefore, that:

- **the ABI and the industry work together to improve the reputation of insurance products with the financially excluded through partnerships with housing providers, charities and (where appropriate) other companies and financial services providers to promote the benefits of home contents insurance and to improve open market access.**

Next steps – Taking the work forward

40. The IWG was set up for a finite time by the Financial Inclusion Taskforce to conduct analysis into three key issues:

- which types of insurance are most needed by financially excluded customers;
- the barriers, including cost, to excluded customers taking these insurance products up; and
- how these barriers might be overcome, drawing on evidence on the success of insurance with rent, and risk-reduction projects.

41. This paper sets out progress against each of these three areas. The IWG considers that good progress has been made in each of these areas, and the work of the group and the Government’s focus on access to insurance has

served to raise awareness of the issue amongst the insurance industry. The IWG is also pleased that the ABI has demonstrated its commitment to work on financial inclusion by setting out a clear programme for work on improving access to insurance.

42. The IWG has made a number of recommendations for a variety of organisations to take forward, although the key actions will be led by Government; the ABI and the insurance industry; and the Taskforce. The IWG considers that it is important that the lead organisations focus on turning the recommendations into firm actions.

43. The IWG understands that the Taskforce will play an important role in contributing to the design of DWP's financial inclusion Champions initiative, and that a Taskforce-led Working Group will be established to guide and advise on development of the Champions initiative. The IWG welcomes the Taskforce's involvement in designing this initiative and would like the Taskforce and DWP to ensure that they seek appropriate contributions from insurance stakeholders in developing this important element of the initiative.

44. The IWG has made a number of recommendations, which are aimed specifically at the insurance industry. In light of the Taskforce taking forward work on the financial inclusion Champions initiative, which will contribute towards achieving IWG recommendations on the supply and demand side of the social housing market, **the IWG recommends that the ongoing role of the IWG should be passed to the ABI.** The IWG considers that the ABI would be best placed to deliver successful financial inclusion outcomes working with the insurance industry, Government and other key stakeholders. The ABI has indicated that its work on financial inclusion will be overseen by a board consisting of 5-10 insurers, with a senior industry figure chairing the group.

45. The IWG is, however, aware that the Financial Inclusion Taskforce has been tasked by the Government with overall responsibility for monitoring progress on actions to improve access to insurance for financially excluded people. **The IWG recommends, therefore, that a number of steps be taken to ensure that the Taskforce remains connected to the work that will be taken forward by the ABI:**

- **The ABI-led group to update the Financial Inclusion Taskforce regularly on progress against the set work programme.**
- **The ABI and the Taskforce to explore the potential for Taskforce representation at the ABI-led working group.**
- **The ABI to provide DWP with technical assistance and advice on planning and delivery of the financial inclusion Champions initiative, including the ongoing "now let's talk money" campaign.**