Mapping the demand for, and supply of, Home Contents Insurance (HCI) schemes operated by Local Authorities and Housing Associations

Research for the Insurance Working Group of the Financial Inclusion Taskforce

HM Treasury

Experian Report

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Contents

Executive Summary

The Financial Inclusion Taskforce commissioned this project in January 2008, focusing on Home Contents Insurance (HCI) schemes operated by social landlords. Under the remit of improving financial capability and reducing incidences of financial exclusion, the key objectives of the project were to understand the geographic distribution of likely demand for HCI packaged-with-rent products, to map the availability and take up of schemes and to confirm the mismatch between demand and supply at the local authority (LA) level.

HCI schemes include 'insurance-with-rent', where the housing provider collects the premium for the home contents insurance at the same time as collecting the rent, and 'arms length', where the housing provider promotes the scheme but premiums are paid directly by the tenant to an insurer.

By demand, English LAs displaying the greatest likely need for HCI products based upon the socio-demographic profile of that locality include Tower Hamlets, Hackney, Newham and Islington. Outside London, identified areas of high demand include Manchester, Sandwell, Liverpool and Nottingham. Within Wales, the three highest-ranking LA's for likely requirement of HCI packaged-with-rent are Torfaen, Newport and Cardiff.

In terms of supply, LAs displaying both a relatively high number of HCI providers and generally displaying above-average capability to serve the market include Sefton, Burnley and Leeds.

Demand and supply variables have been linked; those LAs displaying the greatest mismatch between high likely requirement and low supply indicators including Blaneau Gwent, Newport, Kingston upon Hull and Lewisham.

A series of maps and spreadsheets can be found as appendices. These indicate the relative supply, demand and mismatch characteristics of all LAs in England and Wales.

Contacts

For further information on this project, contact:

Patrick Gray: Customer Insight, Public Sector Team, Experian

E-mail / Tel: patrick.gray@uk.experian.com, 07967 342713

1 Introduction

1.1 The Financial Inclusion Taskforce

Many people, particularly those living on low incomes, cannot access mainstream financial products such as bank accounts and low cost loans. This financial exclusion imposes real costs on individuals and their families - often the most vulnerable people in our society. It also has costs for the communities in which they live.

Households that operate solely on a cash budget are: unable to make savings via direct debits on utility bills; more vulnerable to loss or theft; and far more likely to use the alternative credit market - and pay interest many times that of a standard personal loan, sometimes contributing to spiralling debt. In addition, for those who do get into debt or who struggle to make payments, the supply of free face-to-face money advice falls far short of demand.

The Government set out its strategy to tackle financial exclusion in 'Promoting financial inclusion', published alongside the 2004 Pre-Budget Report. The report sets out a range of measures - in three priority areas - access to banking, access to affordable credit, and access to free face to-face money advice.

The Government also established a framework for delivery. Two Financial Inclusion Funds supported this, for 2005-08 (£120m) and for 2008-11 (£130m). The Government set up the Financial Inclusion Taskforce to monitor progress towards its objectives and to make recommendations on further work to increase financial inclusion. Taskforce members draw on experience from the private, public, charitable and academic sectors.

1.2 Scope of the Project

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.

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 subsequently established a work programme to examine issues around insurance and financial inclusion, including developing a research programme to further the evidence base.

At the same time the Taskforce commissioned IPSOS Mori to survey based research to consider attitudes, needs and barriers to take up for HCI among low income households[1].

It is within this context that the IWG commissioned Experian to 'map' the current provision HCI schemes operated by Local Authorities and Housing Associations. This mapping would distinguish between areas that have successful schemes and those areas with limited take-up. It would also identify the areas with the greatest perceived requirement for such HCI schemes through a financial exclusion analysis.

Demographic models were built to help identify the type of customers likely to require such products, and specify areas of England and Wales with potentially the greatest demand for such HCI packaged-with-rent services.

Experian conducted market research to understand the existing supply picture, distinguishing between organisations and geographic areas where there are no schemes operational; those schemes that are operating with successful take-up, and where schemes are operational but with limited take-up.

The project covered England and Wales, incorporating a combination of existing data, primary research and bespoke modelling. Furthermore, input from industry experts and Taskforce members during the project contributed towards delivering a series of outputs deemed suitable for achieving the overall objectives of the Insurance Working Group.

[1] This research is available here: http://www.financialinclusion-taskforce.org.uk/documents/research/ipsos_mori.pdf

1.3 Experian Approach

A three-stage approach was adopted, which is summarised as follows and detailed in section 2.

- *Demand:*

1. Collating datasets and research information that appropriately identify households deemed likely to require HCI packaged-with-rent products.

2. Demographic analysis to understand the type of people and households most likely to require HCI products.

3. Mapping these demographics to identify those LAs with the highest volume and percentage of such people and households.

- *Supply:*

1. Telephone research to collate database of social housing providers and key information regarding their use of and attitudes towards HCI.

2. Assess the current and potential capacity of these organisations to provide and promote HCI schemes.

3. Geographically, map the level of coverage, distinguishing between levels of capability and volume of supply.

- *Mismatch analysis:*

1. Combining Demand and Supply models, to identify those LAs with the greatest mismatch.

2. Ranking LAs based on mismatch, thereby enabling a focus in policy and investment on those LAs of greatest concern.

2 Mapping Demand

2.1 Introduction

Experian concluded that four variables were appropriate to identify the type of people and households that display a potentially high requirement for HCI schemes packaged with rent.

1. *Households without contents insurance* (source: TGI, 2008).

The British Market Research Bureau produces the Target Group Index (TGI), which provides identification of target audiences across a wide range of consumer goods and services, including demographics, lifestyles, media, FMCG purchasing habits, motoring and DIY. Often used in area-based applications such as catchment analysis for new site locations, direct mailing, door-to-door distributions and ranking places, the TGI profiles are particularly useful for providing proxy customer data for analysis.

Mosaic Public Sector cross-tabulations of any TGI questions are available, which allows us to identify Mosaic types that particularly over-represented for a specific question, and then geographically map where they are more likely to be located. Mosaic Public Sector classifies households and postcodes into one of 61 socio-demographic segment types, based upon the underlying lifestage and lifestyle characteristics attributed to residents within that locality.

Mosaic Public Sector analysis of responses to the TGI question "*not having home contents insurance*" has provided a demographic profile of the type of people and households whom are most over-represented within this category.

2. *Wealth to Poverty score* (source: Experian, 2008).

This continuous variable scores every postcode on a scale of 'wealth'. It is defined through a combination of affluence variables such as property owner-occupancy, car ownership, high status jobs, directorships and shares ownership.

Each postcode is placed into a percentile that contains 1% of the population, with a percentile of 99 representing the 1% of households with the highest 'wealth' score, and so on. As such, low scores will occur in areas where for example: public (council) housing is in abundance; property values are low; unemployment is high; car ownership levels are low; and where there are proportionately high levels of County Court Judgements.

3. *Likelihood to be burgled* (source: British Crime Survey, 2005).

The British Crime Survey (BCS) is an important source of information about levels of crime and public attitudes to crime. It is primarily a 'victimisation' survey, in which respondents are asked about their experiences of property crimes of the household (e.g. burglary) and personal crimes (e.g. theft from the person) experienced over the past year.

On an annual basis, responses to c.200 questions are collected via face-to-face interviews from approximately 25,000 respondents. Data released at the beginning of 2006 was coded-up by Experian's Mosaic Public Sector and compared to the base population of England and Wales, with a demographic profile of respondents to "*have been burgled at home*" generated that identifies the type of people and households with a higher than average likelihood to display this characteristic.

4. *Households' Tenure, Social Housing* (source: Experian, 2007).

Experian's tenure model is a household level demographic variable that identifies whether a property is owner occupied, Council/Housing Association or privately rented. Based upon c.444,000 respondents taken from Experian's annual (2007) Lifestyle survey, using logistic regression it predicts likely tenure based upon the underlying socio-demographics of individuals and the household and postcode they are found within.

Where available, model results are overwritten with recent actual lifestyle response data at the household level, plus a postcode dominant variable is available in absence of sufficient household information. Overall, 78% of housing tenure estimates are correct, with Experian's Council/Housing Association tenure model performing at 65% accuracy.

2.2 Methodology

For variables 1 and 3, a Mosaic Public Sector profile was created, which effectively identifies, for each of the 61 Mosaic Public Sector demographic types, the index (and hence, relative 'likelihood') for that demographic type to display a particular attribute when compared to the nation as a whole.

For example, Mosaic Public Sector type 'Caring Professionals' (well educated singles and childless couples colonising inner areas of provincial cities), displays an index of 150 of likelihood to be burgled – thus, when compared to the national average, households classified as 'Caring Professionals' are 1.5 times more likely to experience a break-in at home. By contrast, Mosaic Public Sector type 'Tourist Attendants' (Neighbourhoods with retired people and transient singles working in the holiday industry), with an index of 50 are estimated to be half as likely as the national average to be burgled.

Across these two variables, the following three Mosaic Public Sector types display particularly noticeable indices;

Metro Multiculture – High density social housing, mostly in inner London, with high levels of diversity. Index of 145 for 'likelihood to be burgled' and index of 95 to 'have home contents insurance'.

Town Centre Refuge – Centres of small market towns and resorts containing many hostels and refuges. Index of 169 for 'likelihood to be burgled' and index of 82 to 'have home contents insurance'.

Tower Block Living – Singles, childless couples and older people living in high-rise social housing. Index of 193 for 'likelihood to be burgled' and index of 72 to 'have home contents insurance'.

These individual 'likelihood' (index) scores are calculated through multiplying the individual index by the number of houses categorised by that Mosaic type within a particular geographic brick. This creates an overall score that acknowledges the demographic make-up and number of households within an area, and its overall likelihood to display a particular trait. All data is created at Output Area level, and can therefore be summed up to any form of higher geographic level, such as Ward or Local Authority.

For example;

1. Neighbourhood A has 300 households, 100 from each of the above three Mosaic types. The 'likelihood to be burgled' score would be 507 (100*1.45 + 100* 1.69 + 100*1.93).

2. Neighbourhood B is similar sized but the 3 Mosaic Types are split Metro Multiculture 50 households, Town Centre Refuge 100 households and Tower Block Living 150 households. The 'likelihood to be burgled' score would be 531 (50*1.45 + 100* 1.69 + 150*1.93).

3. Neighbourhood C is slightly smaller, 280 households, yet more homogenous as all households are classified as Tower Block Living. In this scenario the 'likelihood to be burgled' score is 540.

In this example, neighbourhood C is ranked the highest in terms of greatest concern towards being burgled, although is the smallest in terms of number of households.

Using variable 2, the proportion of households within a geographic brick that are nationally in the bottom 15% on the 'Wealth to Poverty' scale is identified.

Using variable 4, the model predicts the proportion of households within a geographic brick identified as being Council / Housing Association.

2.3 Ranking of Wards

All wards across England and Wales are ranked based upon showing the highest likelihood score for each of the four variables. These four rankings are translated into equally-sized deciles, thus the output being four separate 1-10 decile 'scores' for each ward.

The four variable scores for each ward were added together, creating an aggregated 'requirement' score that identifies a total level of requirement (minimum score = 4, maximum score = 40) at ward level.

Using the methodology noted earlier, a potential skew towards rural areas with lower household counts is possible. To ensure that demographic profiles rather than number of households are driving the rankings, a rural/urban smoothing factor was introduced. All postal sectors and output areas are allocated one of twelve rural-to-urban scores based upon characteristics such as household density, occupancy ratio, daytime and residential populations and employment categories, with the most urban areas receiving the highest weighting.

When ranked, wards with a particularly high likelihood include Hoxton (Hackney), Whitechapel (Tower Hamlets), Peckham (Southwark), Tottenham Hale (Haringey) and Oval (Lambeth).

2.4 Ranking of Local Authorities

In order to create a ranking at LA level, emphasis is placed upon the proportion of wards within a LA that are ranked high in terms of overall likely requirement for HCI.

Thus, for every LA both the total number of wards and the number of wards that are in the top 1,750 (i.e. top 20% of all wards) were identified. The proportion was calculated, with the following example results for England;

- *Tower Hamlets: 17 wards in total, 17 of which appear in the top 1,750 list (100%).*
- *Sandwell: 24 wards in total, 20 in top 1,750 (83%).*
- *Thurrock: 20 wards in total, 10 in top 1,750 (50%).*
- *Chiltern: 25 wards in total, 1 in top 1,750 (4%).*

Using this methodology, all LA's in England are ranked based on the % mix, and subsequently placed into 10 deciles. As examples, the following LAs appear within the top 10 of decile one;

- *Tower Hamlets, Hackney, Islington, Newham, Lambeth, Lewisham, Camden, Barking and Dagenham, Hammersmith and Fulham, Manchester.*

Similarly, this analysis was completed for Wales, with the top 5 ranked LAs being Torfaen, Newport, Cardiff, Blaenau Gwent and Wrexham.

A full list of all LAs in England and Wales and their demand ranking is supplied as Appendix One. Appendix Two is a mapped representation of this analysis, banding all LAs thematically 'hot to cold'.

3 Mapping Supply

3.1 Introduction

It is generally recognised that there is currently great variation between organisations in terms of HCI provision and the promotion and take-up of these services. HCI schemes can be provided two ways, 'insurance-with-rent' (the housing provider collects the HCI premium at the same time as collecting the rent), and 'arms length' (housing provider promotes the scheme but premiums are paid directly by the tenant to an insurer).

In order to understand this variation and differentiate between organisations, a telephone survey of senior housing officers was conducted by Experian, aimed at achieving as high a response rate as possible from the biggest possible range of Social Housing providers.

The main objectives of the survey were to provide data to help identify;

- *Whether they operate a HCI scheme.*
- *Current take-up rate for the scheme.*
- *Options available for payment.*
- *Commitment to promoting and developing the HCI scheme.*
- *Size and location of the social landlord.*

A copy of the questionnaire is provided as Appendix Three.

3.2 Collation of Base Database

To ensure the highest possible response rate from the telephone research, the biggest possible universe of social housing providers was sourced. The three key sources being the Housing Corporation website, a full list of LAs in England and Wales and Experian's National Business Database.

These lists were augmented by information from the National Housing Federation, the Chartered Institute of Housing, the National Federation of ALMOs (Arms Length Management Organisations) and the Welsh Housing Federation.

This provided a sample of 2,561 records, after screening 1,677 were deemed appropriate to include in the research programme – the screening accounted for the removal of duplicates, invalid flagged organisations and non-England & Wales providers.

3.3 Research Results

The survey ran for a five-week period during March and April 2008. The majority of research was completed by telephone using CATI (Computer Aided Telephone Interviewing), with the average length of completed interview being 12.5 minutes. However, rather than responding directly to the telephone survey, some respondents preferred to e-mail the information through or required further project objectives clarification before divulging information.

Of the 1,677 organisations identified, 896 interviews were completed to a successful standard of information. Of this 896 (53% of sample size), 492 are defined as 'housing association', 47 as 'local Authority' and 357 as 'other social housing landlord'.

In terms of statistical reliability, the respondents to the survey are only samples of the total Social Housing Provider 'population', so we cannot be certain that the figures obtained are exactly those we would have if all relevant organisations across all LAs had been interviewed. Equally, the research is reliant upon responder's answers, plus there hasn't been any desktop analysis to corroborate these responses or focus on any specific geographic areas.

Given the above, although there are obvious limitations in terms of response rate and accuracy of responses, we are confident that the data collected does provide a reasonable baseline in terms of organisations and the variations in provision.

Overall, 12% of respondents reported they directly run a HCI scheme, with a further 33% reporting they offer an 'arm's length' scheme. This 45% accounts for 85% (2,279,816) of the total housing stock that was accounted for from within the questionnaire. Conversely, the 55% of organisations that don't offer HCI accounted for 15% (418,420) of the total housing stock accounted for from the questionnaire.

The mean overall take-up of an 'Insurance with Rent' scheme is estimated to be 16.09%; calculated through dividing the total number of housing stock that an organisation owns by the total number of housing stock that have taken up the scheme. By contrast, the mean overall take-up of the 'Arms Length' scheme is just below 10%.

Some of the verbal responses for not offering a HCI scheme included:

- Not aware of such products or not got around to looking into it further,
- tenants insure themselves or haven't requested such schemes,
- a small organisation with few properties and run only voluntarily, and
- the organisation is a short-term temporary measure for homeless families.

3.4 Scoring Definitions

Each of the 896 organisations are allocated a 'score' based upon their ability to provide and promote HCI products amongst their tenants. This score is generated through weighting responses to three key questions on the surveys;

- *Whether they operate a HCI scheme (score of 0, 1 or 5).*
- *Current take-up rate for the scheme (score of 0-5).*
- *Commitment to promoting and developing the HCI scheme, for example via a housing office, through events and tenants newsletters or at start of tenancy agreement (score 0-5).*

Thus, an organisation that operates a scheme, with a high take-up rate and is committed to promoting the scheme could score a maximum of 15 points, through to nil points for an organisation that scores zero to all three questions.

Those 781 organisations with insufficient survey information were not included in the mapping work. Although these make up a sizeable proportion in terms of number of organisations, they tend to be the smaller providers in terms of housing stock and so comparatively have lower impact. In addition, these seem to be well distributed geographically and so mapping analyses would not necessarily be biased towards a particular Region or LA.

3.5 Counts for each score and geographic mapping

All 896 organisations are ranked based upon their overall score from the three key questions, then subsequently banded into 5 quintiles to reflect the overall score for operating, take-up and promoting HCI – essentially, one could describe as 'capability to serve' score;

- *High – 28 organisations.*
- *Above Average – 115 organisations*
- *Average – 242 organisations.*
- *Below Average – 22 organisations.*
- *Low – 489 organisations.*

Within the survey, responses are captured regarding the geographic location of an organisation's housing stock. As such, within each LA we can identify the number of housing associations and the 'capability to serve' score for each of these individual organisations.

Those LAs with the greatest number of housing associations tend to be highly urbanised conurbations such as London and the West Midlands – for example, Lewisham has 131 identified housing associations, Haringey 128, Birmingham 54 and Wolverhampton 51. However, these may not necessarily reflect those organisations which scored the highest in terms of their 'capability' – for example, of the 21 organisations within Cheltenham, 7 are scored as either High or Above Average, whilst of the 30 organisations within Worthing, 19 have been scored as either Below Average or Low.

3.6 Ranking of Local Authorities by supply

An overall score, ranking and decile allocation of each LA based upon supply is necessary to link to the demand analysis. So, to acknowledge both the volume and 'capability' of HCI organisations by each local authority, a weighting was introduced which gave greater emphasis to those organisations that had been scored as High and Above Average;

- *High – 28 organisations – weighting of 3.5.*
- *Above Average – 115 organisations – weighting of 3.*
- *Average – 242 organisations – weighting of 2.*
- *Below Average – 22 organisations – weighting of 1.*
- *Low – 489 organisations – weighting of 0.5.*

Using this weighting methodology, Cheltenham which has 21 HCI organisations would have a collective supply score of 38.5 (3*3.5 + 4*3 + 6*2 + 8*0.5), whereas Merton which also has 21 HCI organisations only scores a collective 30 (1*3 + 11*2 + 1*1+ 8*0.5).

Finally, an 'average' score across the LA is calculated (ie for Cheltenham and Merton, 38.5 divided by 21 and 30 divided by 21 respectively), with this average score being ranked and placed into deciles.

Using this methodology, those LA's which rank the highest in terms of supply capability include Pembrokeshire, Redditch, Rushmoor and Cardiff, whilst LA's in the lowest decile include Wokingham, Monmouthshire and Newport.

Appendix Four provides this information in a tabulated format, whilst Appendix Five provides a mapped representation of this information.

4 Mismatch Analysis

4.1 Introduction

Upon collation and agreement of the demand and supply rankings, the next stage is to combine these scores and identify those areas which displayed the biggest discrepancy between high demand and low supply – essentially, those LAs which raise the greatest concern.

4.2 Methodology

Each LA in England and Wales has been allocated into one of 10 deciles for both demand and supply of HCI schemes. Based upon the combination of these two decile allocations, an overall 1-5 'mismatch score' is created.

		Demand decile (1 high - 10 low)									
		1	2	3	4	5	6	7	8	9	10
Supply decile (1 high - 10 low)	1	Three	Three	Three	Four	Four	Four	Five	Five	Five	Five
	2	Three	Three	Three	Three	Four	Four	Four	Five	Five	Five
	3	Three	Three	Three	Three	Four	Four	Four	Five	Five	Five
	4	Three	Three	Three	Three	Three	Four	Four	Four	Five	Five
	5	Two	Two	Three	Three	Three	Four	Four	Four	Five	Five
	6	Two	Two	Three	Three	Three	Three	Four	Four	Four	Five
	7	Two	Two	Two	Two	Three	Three	Four	Four	Four	Five
	8	One	Two	Two	Two	Three	Three	Three	Four	Four	Four
	9	One	One	Two	Two	Two	Three	Three	Four	Four	Four
	10	One	One	One	Two	Two	Two	Three	Three	Four	Four

A mismatch score of 1 (greatest concern) is generated through combinations of demand decile being 1, 2 or 3 and supply decile being 8, 9 or 10. By contrast, a mismatch score of 5 (least concern) is generated through a combination of low demand decile and a high supply decile.

4.3 Results

Appendices Six and Seven list and map the mismatch scores for all LA's in England and Wales. For reference, the distribution across these 5 mismatch scores is as follows;

Mismatch Score One (greatest concern) – 2 LA's (2 in Wales, 0 in England)

Mismatch Score Two – 23 (7, 16)

Mismatch Score Three (average concern) – 70 (6, 64)

Mismatch Score Four – 215 (4, 219)

Mismatch Score Five (least concern) – 62 (3, 59)