SCOTTISH CONSUMER COUNCIL

UNDER COVER

HOME CONTENTS INSURANCE SCHEMES FOR LOCAL AUTHORITY TENANTS IN SCOTLAND

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CHAIRMAN'S PREFACE

It is a false economy to skip on home contents insurance. This has been much in evidence during recent years when there have been several episodes of flood damage to households in Scotland. Many of these were households on low incomes and with no contents insurance. Anyone at any time can suffer loss due to theft or natural disaster. However, people on low incomes can find it difficult to add an insurance premium to already overstretched budgets. Furthermore, people on low incomes can find it difficult to obtain contents insurance in the first place — for example, they are less likely to have a bank account to take advantage of paying their premium by instalments, they are more likely to be living in a high risk area with a higher insurance premium, and they are unlikely to be able to afford to fit security devices in their homes at the request of insurance companies.

The Scottish Consumer Council, therefore, decided to look at home contents insurance schemes run by local authorities for their tenants. These schemes, of which little was generally known, appeared to offer one way of opening up access to contents insurance for at least some people on low incomes.

We were surprised to find that less than half of Scotland’s local authorities operated these schemes, despite the numerous benefits to tenants. Some of these benefits are:

- tenants living in high risk areas do not pay a higher premium than other tenants;
- premiums are generally lower than ordinary insurance policies, and are collected with rent for easy payment;
- claims are settled very quickly (eg within a week);
- tenants benefit from safety initiatives suggested by the insurer and carried out by the council.

Our report highlights some concerns which need further thought, such as the lack of clarity over the agency status of local authorities and insurance brokers; lack of information about the identity of the insurer and about how to make complaints in many cases; and ambiguity over some councils’ role in admitting tenants with rent arrears onto schemes.

This report is published at a time when local authorities in Scotland are undergoing re-organisation, and I hope it will encourage the new authorities to place home contents insurance schemes for tenants high on the agenda.

Equally, I hope it will encourage tenants to discuss these schemes with their new authority.

This report is intended to stimulate not only the expansion of these schemes, but discussion of the wider issue of access to home contents insurance for people on low incomes.

Deirdre Hutton
CHAIRMAN
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The SCC would like to thank the insurance companies and brokers who took part in the research, to the tenants who participated, and to the local authorities who provided information and took part in the telephone survey. We would also like to thank Carolyn Hall for her work in carrying out the interviews.

Finally, thanks are due to those who commented on the draft version of the report: John Hood and Frank Montgomery of Glasgow Caledonian University’s Department of Risk and Financial Services, Sophie Gumpel of Consumers’ Association, and Tim Watkins of the Welsh Consumer Council.

The preparation for this report was overseen by the SCC’s Economic Affairs Committee. The members of the committee were: Jeremy Mitchell (Chairman), Deirdre Hutton (ex officio), Tom O’Malley, Yvonne Osman, and Andrew Raven.
CHAPTER 1   BACKGROUND TO THE RESEARCH

1.1 Introduction

It only takes one single disastrous event, such as a flood or a fire, to wipe out the entire contents of a home. Items such as furniture, cooker, fridge, television and carpets, all have to be replaced. Smaller scale disasters, such as a break in, can mean replacing some of the items in a home. These scenarios are harrowing enough, but for many people, particularly those on low incomes, replacing damaged or stolen items is impossible, because they have no home contents insurance.

Home contents insurance may appear to be expensive or a low priority to many people on low incomes. The aim of this report is to encourage access to home contents insurance for low income consumers. It looks specifically at home contents insurance schemes operated on behalf of tenants by local authorities. In doing so, we hope also to stimulate a wider consideration of the insurance needs of low income households.

Little is known about the number of local authority tenants who hold home contents insurance. Sometimes it is discovered, only too late, that tenants are either under-insured, or not insured at all, for damage to their home contents. The 1995 floods in Ferguslie Park in Renfrewshire, for instance, revealed that many of the tenants had no home contents insurance, and little access to assistance in refurbishing their homes. The last available figures showed that, in 1986, four out of five households in Scotland had home contents insurance, in line with Great Britain as a whole. These figures did not show the proportion of local authority tenants in Scotland who had insurance, but revealed that 91% of owner occupiers and 64% of tenants in Britain had home contents insurance¹. The Central Statistical Office's 1994 household insurance figures show that the number of households without contents insurance had risen: 26% did not have any.

Some local authorities in Scotland provide home contents insurance schemes for their tenants, and this report seeks to set out:

- which councils operate schemes;
- who the insurers are;
- how the schemes work;
- what the issues are for insurers, tenants, and local authorities.

This report is intended to be used by:

- tenants, so they can approach their local authorities in an informed way, and take part in discussion and negotiation about home contents insurance schemes;
- local authorities, so they can learn from the good practice of other authorities;
• insurers, so they can expand their business across Scotland and work with local authorities and tenants in offering a viable and appropriate product.

Anyone, at any time, is vulnerable to loss or damage to their home contents. Some items are essential, and must be replaced at great expense. In order to do this, and for the peace of mind of knowing that it can be done, home contents insurance is very important. Yet many people cannot afford the premium. For those on low incomes, there are simply too many other pressing demands on overstretched budgets. Looking at home contents insurance for local authority tenants is but one part of the wider issue of insurance for low income consumers.

1.2 Research Methods

The Scottish Consumer Council's research, which was carried out in 1995, before the reorganisation of local government, was conducted in three stages.

• Stage one was an information-gathering exercise. A letter was sent to the Chief Executives of the 56 district and islands councils in Scotland, asking whether their authority operated a home contents insurance scheme for tenants. No time limit was set for a response. Some five weeks later, 15 authorities had not replied, and a further letter requesting information was sent to them. This resulted in responses from all but four of the local authorities. Each of these four was telephoned, and asked whether they operated a scheme.

Information as to which local authorities in Scotland operate home contents insurance schemes is presented in chapter 2.

• The next stage in the research involved a series of meetings to establish some of the issues which might be important, from the point of view of insurers, insurance brokers, and tenants. Most of the local authorities operating schemes sent us details of their scheme during stage one of the research. From this initial information, we were able to identify a number of insurers and brokers who were involved in local authority schemes in Scotland. Individual meetings were subsequently held with three insurance brokers and one insurer. A fifth meeting — a group meeting — was arranged, for tenants. Tenants' representatives were selected from specific areas, and invited to attend the group meeting. All eight representatives attended the meeting.

The purpose of the meetings was to highlight, through discussion, some of the issues involved in local authority insurance schemes. Therefore, although they were designed to be neither interviews nor focus groups, all participants were given a suggested discussion schedule for the meetings. The schedules, one for the insurers and brokers, and one for the tenants, are given in Appendix 1. These provided a guide to the areas of interest, and were offered as a prompt for discussion.
The content of the discussions was analysed, drawing out common themes and specific issues perceived by the participants. Chapter 3 contains this analysis.

- The third and final stage of the research was a series of telephone interviews with the local authorities currently operating home contents insurance schemes. With the aim of identifying lessons and good practice, it was decided not to interview local authorities who did not operate schemes.

The analysis of the discussions in stage two was used to prepare a questionnaire for local authorities. The authorities which had replied to our request for information were contacted by letter to let them know of our intention to carry out the telephone interview. They were then contacted by telephone to arrange a convenient time to be interviewed, and were sent a copy of the questionnaire at least a week in advance of the agreed interview date. All councils with schemes took part, although Roxburgh District Council passed the questionnaire on to the broker, who took part on their behalf.

The telephone interviews were conducted over a three week period, and the results were analysed. The questionnaire is given in Appendix 2. Some of the findings are presented as background information in Chapter 2, while more detailed results are given in Chapter 4.

The overall results of our research have led us to make a series of recommendations to tenants, to local authorities, and to insurers and brokers, which are set out in Chapter 5.
CHAPTER 2  DETAILS ABOUT HOME CONTENTS INSURANCE SCHEMES

This chapter presents some background findings about local authority schemes, such as which councils operate schemes, information about minimum sums insured and premiums, the handling of arrears, information provided for tenants, and complaints handling. Chapter 4 sets out some detailed information about the schemes.

2.1 The Local Authorities Involved

At the time of the research there were 56 district and islands councils in Scotland. Eighteen of these operated home contents insurance schemes for their tenants. A further five councils (Aberdeen, Argyll and Bute, Renfrew, Stirling and Tweeddale) were about to begin schemes, and another (Ross and Cromarty) was due to begin, pending council approval.

Thirty-two of the 56 councils\(^2\) did not operate schemes, although two of these (Western Isles and East Lothian) were actively considering setting one up. The Western Isles was in negotiation with insurance companies, and had found it difficult to gain insurers' interest, because of the small number of tenants. Perth and Kinross District Council had decided not to set up a scheme, and this decision was based on research among their tenants. The councils operating schemes were:

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<td>Roxburgh District Council</td>
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<td>Strathkelvin District Council</td>
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<td>West Lothian District Council</td>
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2.2 Sums of Money Involved

In general, minimum sums insured and insurance premiums were lower in council-run schemes than in high street insurance policies. The December issue of *Which?* magazine
looked at "best buy" home contents insurance policies, comparing costs in different parts of the UK\(^3\). The research found that minimum sums insured usually ranged from £10,000 to £20,000 (although, of the 16 "best buy" policies listed in Which?, two were lower than this, at £8,000 and £7,500). As an example, the General Accident policy quoted in Which? had a minimum sum insured of £13,000. Of the three council-run schemes involving General Accident in Scotland, two have minimum sums insured of £10,000 and one of £9,000. Minimum sums insured are affected by the extent to which "New for Old" cover is provided.

Some policies replace items at full current prices, while some offer the cost of replacing older items only at second-hand prices. It is important to find out the extent of "New for Old" cover and the timescales involved, when comparing policies.

Which? also listed details of premiums for their "best buy" policies, in both low risk and high risk areas in Scotland. Premiums in low risk areas ranged from £2.47 to £2.57 per £1,000 insured. For high risk areas the range was £7.76 to £9.50 per £1,000 insured.

This means, for example, taking the general range of £10,000 to £20,000 insured, premiums might be:

- £24.70 to £51.40 in low risk areas;
- £77.60 to £190 in high risk areas.

These comparisons serve as an illustration to provide some background information before examining costs in the council-run schemes.

In the council-run schemes, minimum sums insured ranged from £8,000 (Glasgow) to £11,330 (Monklands). There was little variation across the 18 councils: sixteen of them operated at minimum sums insured of £9,000 or £10,000.

Fourteen of the councils offered reduced minimum sums insured for older tenants: this ranged from £5,000 (Glasgow) to £9,270 (Monklands). Eight of the remaining councils had minimum sums of between £6,000 to £7,000.

There was, however, considerable variation in the premiums set for the minimum sum insured. The premiums, calculated on an annual basis, ranged from £30.72 per year (Roxburgh) to £97.92 per year (Monklands). The following chart shows the minimum sums insured across the 18 schemes, and the corresponding annual premiums.
While not part of the rent, all 18 councils collected the premiums with the rent. This was on a weekly, fortnightly or monthly basis according to the existing rent collection arrangements, and tenants did not need to have a bank account to take advantage of these arrangements. Premiums were quoted per week, fortnight, month or year. The figures shown in the chart are calculated as annual payments, based on the information given by local authorities. Where figures were quoted for weekly premiums, we multiplied them by 48 for annual rates, on the basis that the rent collection system tended to be based on a 48-week year.

Policy booklets issued to tenants gave warnings about under-insurance. Most of them explained that if the sum insured was not enough to cover the full value of the tenant’s belongings, then only a pro rata proportion of any claim should be expected to be paid out by the insurance company. Some local authorities provided tenants with “inventories” to help them calculate a realistic value at which to insure their home contents.

It seems, by examining the figures from *Which*? and from the local authorities, that some tenants living in low risk areas might find cheaper insurance by shopping around. However, it should be borne in mind that there may be other costs to be considered with high street policies, such as:

- compulsory excess (the amount of any claim which has to be paid by the policyholder, eg the first £50);
- security measures (such as fitting certain types of locks) which the insurance company may require before accepting a customer; or
the need for a bank account as a condition of paying premiums in instalments rather than in a lump sum.

Council-run schemes do not contain such conditions.

2.3 Arrears

Seventeen out of the 18 councils notified tenants if they fell into arrears with their insurance premium.

Local authorities notified tenants of arrears in a variety of ways:

- automatic withdrawal from the scheme when the tenant falls into arrears, and notification once this has happened;
- notification when payments have fallen into arrears;
- a staged notification procedure; and
- the opportunity to appeal against withdrawal from the scheme.

None of the insurance companies notified tenants directly of arrears with their insurance premium. However, the policy booklets issued to tenants outlined the policyholder’s responsibility for paying premiums on time. A small number of booklets told tenants of the company’s right to cancel the policy in the event of unpaid premiums. Some policy booklets told tenants that, where a payment was made for rent and insurance, but which was not enough to pay the amount due, the payment would in the first instance be made towards the insurance premium.

Over and above helping tenants make arrangements to pay off rent arrears, very few councils offered advice or assistance to tenants regarding arrears with insurance premiums. Clydesdale District Council offered counselling where appropriate, and Ettrick & Lauderdale checked tenants’ eligibility for housing benefit.

2.4 Information for Tenants

All of the councils provided some information about the scheme for tenants. In the majority of cases, this involved a summary or leaflet about the scheme for prospective customers, and a full policy booklet for tenants who joined the scheme. Strathkelvin District Council sent out a pamphlet every year encouraging tenants to join the scheme. Dumbarton District Council placed notices in the local press every year, coinciding with the onset of winter.

Five councils updated the information annually, a further three at least annually, and two regularly but less often than once a year. The remaining eight councils had no definite period of time for updating: most updated “as required”, while two said they had not yet needed to update their information.
In eleven of the councils, tenants received the information after requesting it themselves, whether through a visit to their council offices, or as a response to publicity. The remaining seven councils took a more pro-active role in getting the information to tenants. This included:

- giving out information at the start of a new tenancy;
- information passed on when a housing officer made a visit to a tenant; and
- the use of mail shots as part of a publicity exercise.

Strathkelvin sent out a pamphlet at the beginning of the financial year, encouraging take-up of the scheme. Cunningham sent out information to all tenants during one week in December. The City of Dundee issued a leaflet every year with rent books.

An important area is information for schools and young people. There is evidence, for example, from a recent survey by ProShare, that young people leave school relatively ill-informed about basic personal finance. None of the local authorities in our survey provided information about insurance specifically for young people or for use in the classroom. Useful material is available, such as the Consumer Education Handbook for Scottish schools, and educational material produced by the Association of British Insurers.

2.5 Complaints

When something goes wrong, tenants need to have a clear mechanism for complaining.

The Association of British Insurers (ABI) has a code of practice according to which member companies have to conduct their business. Where tenants think the insurance company has not adhered to the code of practice, and there may be grounds for disciplinary action, they can raise the matter with the ABI.

However, tenants seeking redress would do better to make their complaint to the Insurance Ombudsman Bureau. The Ombudsman can investigate disputes over claims, and complaints about a policy, its marketing or administration, and can provide financial compensation where appropriate. The Insurance Ombudsman issues an Annual Report, which includes details of his terms of reference.

We asked the councils whether the insurers involved in their scheme belonged to the ABI and the Insurance Ombudsman Bureau.

- Sixteen out of the 18 councils said their insurance company belonged to the ABI. Two councils were unsure.
Fifteen out of the 18 councils said their insurance company belonged to the Insurance Ombudsman Bureau. Three councils were unsure.

The Association of British Insurers (ABI) has members representing over 95% of the business of UK insurance companies. It recommends that its members participate in a recognised adjudicator scheme, such as the Insurance Ombudsman Bureau. The ABI General Business Code of Practice was introduced to improve consumer protection. Members of the ABI have to operate by the Code of Practice, and the government also expects non-members to comply with it. The ABI produces a wide range of educational material about insurance, household budgeting, and related materials. Some of the material is produced for use in schools.

The Insurance Ombudsman Bureau was set up in 1981 by a group of insurance companies. Its members account for 90% of consumer insurance in the UK. A council — made up of individuals from consumer organisations, academic life, the legal profession and the voluntary sector — appoints the Ombudsman. This is important to safeguard the independence of the Ombudsman from the insurance companies whose work he has to investigate. In 1994 the Bureau received 8,500 new cases to deal with, and 1,695 of these were about household insurance. A policyholder must have received a decision from the senior management of the insurance company, before referring a complaint to the Ombudsman. The complaint has to be raised within six months of that decision.

Some, but not all, of the policy booklets given to tenants contained details of how to make a complaint. For example, of the 11 policy booklets sent to us, only five gave information on complaints. Where they did, details of the insurance company were given, along with reference to help which might be available from the ABI. Information was also provided on how to make a complaint to the Insurance Ombudsman Bureau. The remaining six policy booklets contained no information on how to make a complaint, and no reference to the identity of the insurer.

Lack of information about the identity of the insurer is serious, not only in the event of complaints, but in clarifying the tenant’s legal responsibilities (eg to provide certain information to the insurer). It is difficult to see how a valid insurance contract can exist if the tenant does not know who the insurer is.

Additionally, all but one of the policy booklets described the local authority as being the agent of the insurer. The descriptions do not make clear the extent of the agency, that is, the extent of the council’s authority to act on behalf of the insurer: it may be that the council’s authority as agent extends only to collecting premiums. In some cases the council may also be acting as the tenants’ agent, in negotiating the terms of the insurance policy.

A number of problems can arise from a lack of clarity over the role of the council and others.

- If the council is acting as the tenant’s agent, it may provide advice and assistance in completing proposal forms. However, tenants remain legally responsible for the accuracy of information passed on to the insurer. The omission of certain information from the proposal form can make the insurance contract invalid. This could mean tenants making a claim and then discovering that their insurance policy was not valid. There could be confusion over the responsibility for information passed on to the insurer if the council’s role is not made clear.
Most of the insurance schemes have a broker. The broker appears to have two roles: on one hand, securing an insurance deal on behalf of the council; and on the other, handling claims on behalf of individual tenants.

Use of the term “agent” has to be fully explained in policy booklets. There should also be clear information as to the position of the broker as agent. This is especially important when problems arise and tenants wish to make a complaint, and in defining the particular responsibilities of tenants.
CHAPTER 3  MEETINGS WITH TENANTS, INSURERS AND BROKERS

There are various parties involved in a council-run scheme.

**The council** may play little part in the scheme other than collecting premiums. Council staff may be involved in publicising the scheme, negotiating with insurers, or perhaps carrying out safety initiatives suggested by the insurer. It is not the council who provides the insurance, and the council should not be expected to become involved in disputes over claims. Council staff will meet regularly with insurers to negotiate terms and conditions of insurance policies.

**The Insurance company** carries the risk for the insurance scheme. The insurance company is responsible for accepting, or not accepting, tenants onto the scheme. This is not the council’s decision. The insurance company will monitor the scheme, and may take action to ensure its survival, such as disqualifying tenants who abuse the scheme. The company can, at any time, decide to withdraw from a scheme. Most insurance companies belong to the Association of British Insurers, which sets out a code of practice for companies.

**The Insurance broker** will give the council advice on running a home contents insurance scheme, and will shop around for the best insurance deal, on behalf of the council. Brokers can also give advice to local authorities about administering schemes, such as appropriate computer systems. Some insurance companies only deal directly with clients, while others only deal through brokers. Insurance brokers must be registered with the Insurance Brokers Registration Council.

**The Loss adjuster** will usually be responsible for issuing a cheque to tenants making an insurance claim. Loss adjusters are experts who investigate the cause of the loss and decide whether the claim is correct, within the conditions of the insurance policy. They operate by a code of conduct, established by the Chartered Institute of Loss Adjusters. The code of conduct states “A loss adjuster must at all times preserve impartiality”. Loss adjusters act on behalf of insurance companies, who see them as playing a vital role in fighting fraud.

These are the people who will be involved in a tenant’s claim under a local authority scheme. It should be noted that the loss adjuster is working for the insurer, not for the tenant. If tenants are unhappy with the loss adjuster’s evaluation of their claim, they can hire a loss assessor. Loss assessors analyse the insurance policy, review the terms, explain the terminology and the small print. The loss assessor’s job involves explaining the different claims settlement options, and acting on the instructions of the claimant, negotiating for them with the loss adjuster. Tenants need to balance the cost of hiring a loss assessor against the size of the claim they feel they may lose on the basis of the loss adjuster’s evaluation. Loss assessors do not have to belong to a professional association, although the Institute of Public Loss Assessors encourages membership and sets standards. The Institute can provide lists of loss assessors in local areas.

This chapter lists the main points raised by the insurance and tenants’ representatives who took part in the discussions during the second stage of our research. It is a summary of the views expressed to us.
3.1 Insurers and Brokers

We held individual meetings with representatives of one insurer and three brokers. All of the schemes running at the time of the research were involved with at least one of these four companies.

The issues raised by the insurers and brokers covered claims control, the benefits of these kinds of insurance schemes, the viability of schemes, and how local authorities can contribute to the success of schemes.

Claims Control

The frequency of claims was said to be high compared to claims made under high street insurance policies. Fraud was the largest problem to tackle, and claims control was seen as the key to the success of local authority insurance schemes. It was felt that not enough attention had been given to claims control in the past, which led to the downfall of some schemes: an example was given of one scheme where there was a policy of no investigation of claims up to £200. The scheme had become regarded by some tenants as "easy money", and £900 was paid out in claims for every £100 collected in premiums. That scheme subsequently collapsed.

The insurance representatives saw the best way of dealing with claims control to be using a local loss adjuster to deal with claims. The most successful schemes were where the loss adjuster made a personal visit to every claimant. Locally based loss adjusters were able to make visits within a very short time-scale. One of the insurance representatives detailed the standards they set for the loss adjuster: a visit should be made within 24 - 48 hours after a claim has been made, and the claim should be settled within seven days. Loss adjusters could even arrange for the delivery of replacement goods, for example if the claimant was in hospital.

The central role of the loss adjuster was to ensure a good, efficient service for genuine claimants, while minimising abuse of the scheme.

Insurance companies were able to analyse the claims experience of a scheme, and could contact the local authority where a particular area was giving cause for concern. It was felt that local authorities were co-operative and took steps to make sure the insurer did not pull out of the scheme.

The insurance companies also worked closely with the police in an anti-fraud programme. Through the ABI national computer, household policies are listed so that people who make "double" claims (ie they make the same claim to more than one insurance company) can be tracked down.
Benefits of the Schemes

The insurance representatives saw the benefits to tenants of the schemes as follows:

- All tenants in a scheme are offered the same cover at the same rates. This means that, unlike high street insurance, tenants in high risk areas are not penalised. However, tenants living in some low risk areas might find lower premiums with a high street policy.

- The proposal form tends to be simpler than those for high street insurance, perhaps consisting of one page with four or five questions.

- Tenants pay their insurance premium along with their rent, so they do not need a bank account.

- Minimum sums insured are generally lower than high street insurance, being more realistic for households on low incomes.

- Insurance cover is basic, providing an economical “no frills” policy (eg cover might not be provided for items outside of the home, such as caravans and trailers). This keeps costs down.

Viability

To make sure schemes remained viable and in existence for all tenants, insurers were strict about expelling tenants with a poor claims record. Tenants expelled from schemes can find it difficult to obtain another insurance policy. This was recognised as a dilemma for tenants: a poor claims record might result from living in a high risk area. This contrasts with high street policies, where premiums would rise rather than expelling the customer.

To improve the viability of schemes, insurance companies sought the close co-operation of local authorities. Local authorities could:

- use publicity to encourage a high take-up of the policy among their tenants;

- carry out safety initiatives such as fitting smoke alarms and alerting tenants to the dangers of chip pan fires (identified as a major source of claims).

Local authority involvement in the administration of the schemes also helped to keep costs down, which could be passed on to tenants in the form of lower premiums. In all, the insurance representatives expressed appreciation that the local authorities were doing a good professional job.

3.2 Tenants

The tenants discussed the need for home contents insurance, particularly for peace of mind. When items need to be replaced, for example as a result of flood damage or burglary, some tenants may be able to apply for social security assistance. But grants for those on income
support are limited, and loans tend to be given instead of emergency grants. These loans have to be paid back out of already low incomes. Insurance was regarded as a necessity because of the particular hardships that would be experienced by tenants on low incomes who needed to replace home contents.

However, the tenants highlighted the difficulties of paying insurance premiums out of a low income. Households on low incomes simply had too many other pressing needs, and as a consequence insurance may be regarded as a luxury. The problem was exacerbated by the likelihood that many tenants would face paying higher premiums because they lived in a high risk area.

In any case, tenants may have difficulty in obtaining insurance: many tenants did not have a bank account, or certain forms of identification required by insurance companies (eg passport and driving licence).

It was thought that local authority schemes overcame many of these problems. The tenants felt strongly about the benefits of local authority insurance schemes. With these schemes tenants could spread the cost of their premium, and could pay along with rent. This had the important advantage of not requiring a bank account.

Further advantages were that tenants in vulnerable areas would not be penalised by higher premiums, and they would not be responsible for implementing costly measures (such as changing the front door or fitting a security alarm) before being allowed to join a scheme.

The tenants expressed a great deal of concern about the practice of excluding people with rent arrears. There was suspicion that this was being used by some local authorities as a way of recouping rent arrears. Rent and insurance should be seen as separate matters, and local authorities should recognise that people in rent arrears may tend to be those most at risk, and least able to provide replacement home contents in the event of a disaster.

The vulnerability of young people was raised as a concern. It was felt that there was a need for education about the importance and availability of insurance and how to budget.

It was felt that tenants’ organisations should conduct a survey of insurance needs, and should themselves encourage local authorities to get involved in insurance schemes. They also felt that the tenants’ movement should give serious thought to advocating insurance for all tenants, perhaps with parallels to heat-with-rent schemes. The idea of including an insurance obligation into tenancy agreements was discussed, along with the implications for social security benefits of meeting premiums. This is an area to which tenants’ organisations could give some further thought.
This chapter presents the remainder of the findings from the telephone interviews with local authorities.

4.1 About the Schemes

History of Schemes

We were interested in the background to how the schemes have developed in Scotland. We asked the councils how long their current scheme had been running, improvements or changes made to schemes over the past year, and any changes which were planned either as a result of suggestions by the local authority, by insurance companies, by tenants, or as a result of local government reform.

Eighteen council schemes were up and running at the time of the survey. Seven of these have been running since the 1980s, while five had been set up within the two years prior to the survey. This includes Cunninghame District Council, whose scheme only began during the year prior to the survey.

Over the last year, only seven of the councils had seen changes or improvements to their schemes. These include:

- improvements to written information for tenants (West Lothian, Edinburgh, Cumbernauld & Kilsyth);
- lower minimum sum insured (Kilmarnock & Loudoun, Edinburgh);
- extended cover (West Lothian, Kilmarnock & Loudoun);
- lower premiums (Glasgow - by agreeing that the insurer absorbed the insurance premium tax);
- improvements to the administration of the scheme (Dundee’s updated system, and Cunninghame’s introduction of a standing order facility); and
- changes to terms of cover (eg limiting new for old cover, Kilmarnock & Loudoun).

Gordon District Council had looked at extending cover to provide for accidental damage, but found that this would have been too expensive.

There was little evidence that changes were being planned for the schemes.

- West Lothian was the only council which said changes were planned as a result of suggestions by the local authority.
Four councils said changes were planned as a result of suggestions by the insurers. For example, Dumbarton District Council was considering computerising their scheme, and carrying out a publicity exercise to increase tenant take-up of the scheme.

No councils said changes were planned as a result of suggestions by tenants.

Six councils envisaged changes being planned as a result of local government reform, for example, where the new council’s boundary covered areas with different schemes (Clydesdale, Cumbernauld & Kilsyth, Kilmarnock & Loudoun). None of these three knew what the possible changes might be.

Hamilton District Council said that, prompted by local government reform, they were negotiating with other authorities which currently received a better rate from their insurers.

The Companies Involved

General Accident, Independent, Royal Insurance, and Sirius were the insurers involved in the schemes.

- General Accident was involved in three schemes.
- Independent was involved in nine schemes.
- Royal Insurance was involved in three schemes.
- Sirius led a consortium of insurers (which included Independent) in one scheme.
- A consortium of insurers was involved in a further scheme.
- The person we spoke to at the local authority of the remaining scheme was unsure who the insurance company was.

Alexander & Alexander, Bain Hogg, Bowring, Marsh & McLennan, and Rollins Hudig Hall were the brokers involved in the schemes.

- Alexander & Alexander was involved in four schemes.
- Bain Hogg was involved in two schemes.
- Bowring, Marsh & McLennan was involved in nine schemes.
- Rollins Hudig Hall was involved in one scheme.
- The remaining two schemes had no brokers involved.

Christie, McLarens, and Robins McTear were the loss adjusters involved in the schemes.

- Christie was involved in two of the schemes.
- McLarens was involved in three of the schemes.
- Robins McTear was involved in eleven of the schemes.
- The local authorities of the remaining two schemes were unable to name the loss adjusters involved.
Safety Initiatives

Improved safety awareness among tenants is important to maintain the efficiency of insurance schemes. We asked whether the insurers had suggested any safety initiatives for the council to carry out.

Only five councils said the insurers had suggested safety initiatives. For example:

- safety information in policy booklets;
- fitting smoke alarms;
- written advice for tenants about security, eg windows and locks, and security conscious behaviour in the home;
- written advice for tenants about safety in the home, eg care of chip pans, frozen pipes, care of electric blankets.

Some local authorities were already proactive in these areas, for example West Lothian District Council had a risk management group who were preparing a safety item for the council’s newsletter.

Accountability

It is important that councils are actively involved in ensuring a good service for their tenants from the insurance companies. We asked about three areas of accountability: tendering of insurance contracts, setting performance standards, and an indication of the councils’ own views of the companies involved.

Nine councils said their schemes were subject to a tendering process. Practice varied from:

- leaving the appointment of insurers to the broker;
- seeking costings from a number of companies, with a recommendation to the relevant council committee for approval;
- using fixed long term appointment of insurers;
- annual tendering of contracts.

Two of the councils (Inverclyde, and Motherwell) undertook annual competitive tendering of the contracts. Cunninghame District Council had put the scheme out to tender when it was launched, with plans to repeat the process after a year.

Three councils set performance standards for the companies involved in their schemes.

- Clydesdale District Council set performance standards for the insurer.
- Cunninghame District Council set performance standards for the insurer and the broker.
- Dumbarton District Council set performance standards for the insurer, the broker, and the loss adjuster.

Dumbarton District Council also made use of complaints information to assess performance, and indicated that a high volume of complaints would lead them to re-assess procedures.

Clydesdale District Council was the only one to set specific targets. These were:
- insurer to respond to enquiries about claims within 24 hours of referral;
- respond to claims within 2 working days by visit, telephone or letter;
- issue payments within five working days of agreement to settle.

We asked the councils to indicate their level of satisfaction with the companies involved in their schemes, from a choice of very satisfied, satisfied, neutral and dissatisfied. This is what they thought:

This does not include the assessment of satisfaction with a company expressed on behalf of Roxburgh District Council by the broker who completed the questionnaire.

No councils expressed dissatisfaction with any of the companies involved in their scheme.
4.2 About the Tenants

We gathered some data about the number of tenants involved in schemes. In particular, we asked about the number of tenants belonging to each council scheme, the number who had joined in the last year, how many tenants were denied access to the schemes, and how many had left during the year. In all cases, the councils were asked only for approximate numbers.

Take-up of Insurance Schemes

The insurance companies pointed out the importance of take-up levels to the viability of schemes. We looked at the current take-up rates, and the number of tenants joining the schemes during the year prior to the research.

<table>
<thead>
<tr>
<th>Council</th>
<th>Number of houses</th>
<th>Number of tenants in the scheme</th>
<th>Take-up rate</th>
<th>Number of tenants joining in 1995</th>
</tr>
</thead>
<tbody>
<tr>
<td>Clydesdale</td>
<td>8,700</td>
<td>500</td>
<td>6%</td>
<td>50</td>
</tr>
<tr>
<td>Cumbernauld &amp; Kilsyth</td>
<td>3,000</td>
<td>1,100</td>
<td>37%</td>
<td>30</td>
</tr>
<tr>
<td>Cunninghame</td>
<td>18,000</td>
<td>1,200</td>
<td>7%</td>
<td>1,200</td>
</tr>
<tr>
<td>Dumbarton</td>
<td>9,438</td>
<td>889</td>
<td>9%</td>
<td>200</td>
</tr>
<tr>
<td>Dundee</td>
<td>26,380</td>
<td>2,857</td>
<td>11%</td>
<td>1,000</td>
</tr>
<tr>
<td>Edinburgh</td>
<td>35,000</td>
<td>4,238</td>
<td>12%</td>
<td>303</td>
</tr>
<tr>
<td>Ettrick &amp; Lauderdale</td>
<td>3,500</td>
<td>625</td>
<td>18%</td>
<td>102</td>
</tr>
<tr>
<td>Falkirk</td>
<td>24,000</td>
<td>1,200</td>
<td>5%</td>
<td>450</td>
</tr>
<tr>
<td>Glasgow</td>
<td>121,178</td>
<td>26,001</td>
<td>21%</td>
<td>2,500</td>
</tr>
<tr>
<td>Gordon</td>
<td>4,931</td>
<td>562</td>
<td>11%</td>
<td>not available</td>
</tr>
<tr>
<td>Hamilton</td>
<td>16,300</td>
<td>4,055</td>
<td>25%</td>
<td>not available</td>
</tr>
<tr>
<td>Inverclyde</td>
<td>14,176</td>
<td>3,477</td>
<td>25%</td>
<td>860</td>
</tr>
<tr>
<td>Kilmarnock &amp; Loudoun</td>
<td>20,000</td>
<td>2,437</td>
<td>12%</td>
<td>0</td>
</tr>
<tr>
<td>Monklands</td>
<td>20,000</td>
<td>7,000</td>
<td>35%</td>
<td>780</td>
</tr>
<tr>
<td>Motherwell</td>
<td>29,931</td>
<td>4,485</td>
<td>15%</td>
<td>700</td>
</tr>
<tr>
<td>Roxburgh</td>
<td>5,000</td>
<td>600</td>
<td>12%</td>
<td>80</td>
</tr>
<tr>
<td>Strathkelvin</td>
<td>11,000</td>
<td>2,800</td>
<td>25%</td>
<td>150</td>
</tr>
<tr>
<td>West Lothian</td>
<td>17,000</td>
<td>2,100</td>
<td>12%</td>
<td>not available</td>
</tr>
<tr>
<td>TOTAL</td>
<td>387,534</td>
<td>66,126</td>
<td>17%</td>
<td>8,405</td>
</tr>
</tbody>
</table>

The 18 councils owned just over 387,500 houses.

In total, over 66,120 tenants belonged to council insurance schemes at the time of the survey. This represented a take-up rate of 17% across the 18 councils. It should be borne in mind that there is no information on the take-up of other types of home contents insurance policy among tenants. The take-up rate ranged from 5% in Falkirk to 37% in Cumbernauld &
Kilsyth. The take-up rate did not appear to be related to the number of houses owned by the local authority, or to the age of the schemes.

Information was available from 15 of the councils on the number of tenants joining the scheme over the last year. Across these 15 authorities, over 8,400 tenants joined schemes. This includes Cunninghame District Council, whose scheme only began in the year before the survey (therefore all 1,200 tenants had joined in the past year). Of the remaining 14 councils providing information, the number of tenants joining over the last year ranged from none in Kilmarnock & Loudoun, to 2,500 in Glasgow.

There was no clear link between the number of tenants joining schemes in the last year, and the overall take-up rate or age of the schemes.

Access to the Schemes

Tenants may be refused access to schemes, for example if they have rent arrears or if they have a poor claims record from a previous policy. We asked the local authorities about the number of tenants refused access to their scheme because of rent arrears, and other reasons (eg a poor claims record).

Fourteen of the councils with tenants joining their scheme over the past year were able to give information on the number of tenants who were refused access. Across these 14 councils, while some 8,405 tenants had joined the schemes during the past year, a further 529 were denied access due to rent arrears, and 92 were denied access due to other reasons.

The following chart shows the proportion of tenants who were denied access to schemes:
Overall, seven and a half per cent of tenants applying to join the schemes were denied access because of rent arrears. This ranged from 25% in Strathkelvin and 23% in Dumbarton, to none in Cunninghame, Glasgow and Roxburgh.

There did not appear to be any trend related to the insurance companies underwriting the schemes. For example, Independent was the insurer for both Dumbarton and Cunninghame. Rather, further discussion with one local authority official indicated that local authorities themselves screen insurance applications for rent arrears, and take a decision on whether to forward the application to the insurer. It was emphasised that this was the local authority’s, not the insurer’s policy, and that it was in line with practice in a number of other local authorities. This is a matter which needs further attention, as it raises serious concerns about the role of the council acting as a barrier to accessing home contents insurance, particularly if it is not at the request of the insurer.

Less than one per cent of tenants applying to join the schemes were denied access because of “other reasons”. Only seven councils were involved: in five of these only one or two per cent of tenants in each was denied access because of “other reasons”; in the remaining two councils, it was less than one per cent of tenants.

**Leaving the Schemes**

Tenants might leave insurance schemes

- voluntarily (eg because they have moved house, are unhappy with the insurance offered, or can no longer afford it); or

- because they are expelled by the insurance company (eg following a high number of claims, or making a fraudulent claim).

Fourteen of the councils were able to give information distinguishing between tenants leaving voluntarily and those being expelled. In addition, Edinburgh was able to give a figure for those expelled, but not for those leaving voluntarily, while Cumbernauld and Kilsyth gave a total figure for tenants who had left the scheme.

Across these 16 councils, 61,509 tenants belonged to insurance schemes. There were 4,582 who left during the year, 2,018 voluntarily, and 2,564 who were expelled.

The following graph shows the proportion of tenants who left insurance schemes.
Seven per cent of tenants left the schemes over the past year. Those leaving voluntarily ranged from 13% in Inverclyde and 11% in Dumbarton, to less than one per cent in Motherwell. Those who were expelled ranged from 18% in Dundee and 12% in Edinburgh to no tenants in either Roxburgh or West Lothian. No trend was found relating to particular insurance companies.

Tenants who transfer to a housing association will not be able to take their insurance with them. However, the Scottish Federation of Housing Associations (SFHA) offers an insurance scheme, very similar to the local authority schemes, for housing association tenants. Tenants can join through the housing association, or they can pay their premiums direct to the SFHA. The SFHA scheme is underwritten by Independent Insurance Company, and Bowring, Marsh and McLennan are the brokers. Robins McTear are the loss adjusters.

Asking Tenants

Inverclyde and Cunninghame were the only councils who said they had carried out a survey of tenants’ insurance needs. Cunninghame District Council had obtained information about tenants’ insurance needs from elected members, with a questionnaire planned for later in the year. It is worth noting here that Perth and Kinross District Council had decided not to go ahead with an insurance scheme, on the basis of a tenants’ survey. Edinburgh was the only council to have involved tenants in devising or improving the insurance scheme. However, the council felt that this had been an unsuccessful exercise, because of a lack of awareness among tenants and the small number of staff available for working on it.
4.3 About the Council

Council Activity

We asked about the councils’ specific involvement with the insurance schemes. The following table shows the number of councils undertaking specific tasks.

<table>
<thead>
<tr>
<th>Task</th>
<th>Number of Councils</th>
</tr>
</thead>
<tbody>
<tr>
<td>collect premiums</td>
<td></td>
</tr>
<tr>
<td>produce information</td>
<td></td>
</tr>
<tr>
<td>correspond with tenants</td>
<td></td>
</tr>
<tr>
<td>handle complaints from tenants</td>
<td></td>
</tr>
<tr>
<td>analyse data about the scheme</td>
<td></td>
</tr>
<tr>
<td>give tenants advice about insurance</td>
<td></td>
</tr>
<tr>
<td>negotiate with insurers</td>
<td></td>
</tr>
<tr>
<td>other tasks</td>
<td></td>
</tr>
</tbody>
</table>

Eight councils listed “other tasks” undertaken by the local authority. These included:

- preparing monthly updates for the insurer;
- advertising in the local press;
- sending out claims forms;
- acting as the initial contact point for claims; and
- talking to community councils and councillors.

Fifteen of the 18 councils involved two departments in the insurance scheme. In 14 of these cases, the departments were housing and finance. In Roxburgh District Council the administration and finance departments were involved.

The remaining three councils involved only one department: housing in the case of Motherwell and Clydesdale, and finance in the case of Ettrick & Lauderdale.
Staff Training

Examples of staff training were patchy. Some councils said there was little or no staff training, because there was very little staff involvement in the schemes. Examples of staff training included:

- formal training if a query arose;
- general training for staff in handling enquiries. Staff handling enquiries were informed of any relevant changes;
- written information and background to the scheme for staff;
- a procedures manual for front-line staff;
- staff training provided by the insurance broker;
- "training" by word of mouth and in small departments; and
- in-house training schemes.

Staff were kept up to date with the schemes in a variety of ways:

- through in-house training sessions;
- the use of team briefings to notify staff of changes;
- informed of changes directly by the insurance broker;
- updating written material;
- the use of memos to inform staff of changes;
- through discussions when problems arise.
CHAPTER 5 CONCLUSIONS AND RECOMMENDATIONS

5.1 Conclusions

It is clear that home contents insurance for local authority tenants is an issue of growing concern, highlighted more recently by a series of floods and a spate of burst pipes in certain parts of the country. Although only 18 out of the 56 local authorities in Scotland had a scheme up and running at the time of the research, several more were introducing them. A number of local authorities without schemes expressed an interest in the findings of the research. We hope this report will encourage local authorities to consider setting up insurance schemes for tenants.

Local authority schemes exhibit features which are quite distinct from high street insurance policies. These features are more appropriate to the needs of local authority tenants on low incomes.

- All tenants in the scheme pay the same premium, so that tenants living in high risk areas are not penalised by higher rates.

- Insurance cover is basic, and a “no frills” policy is provided, which helps to keep down costs for tenants.

- Claims are investigated and settled by locally based loss adjusters, which gives tenants a quick service and tackles fraud, maintaining the viability of schemes.

- Minimum sums insured are relatively low, for example £8,000.

- Premiums are collected with rent, so that tenants do not need to have a bank account.

Another advantage is that insurance companies sometimes ask local authorities to carry out safety initiatives, for example installing smoke alarms or giving advice on dealing with fires in the home. Tenants have safer homes, local authorities are providing another valuable service, and insurance companies carry lower risks, which in turn keeps costs down for tenants.

However, these insurance schemes involve an element of cross-subsidy, as a tenant in a high risk area pays the same premium as a tenant in a low risk area within the same authority. This means that tenants in some low risk areas might find cheaper insurance by shopping around. If this happens, and a scheme is providing cover to households mainly in high risk areas, the insurer may become unwilling to carry the risk at low cost. There are a number of things which local authorities could do to minimise this problem, for example installing safety devices in houses to reduce risk, and publicising the scheme to encourage take-up from tenants in all areas. Publicity could emphasise not only the low cost of the insurance, but the other advantages such as not needing a bank account, quick settlement of claims, and free safety measures, to make the scheme more attractive to those tenants who might find cheaper insurance by shopping around.
This report highlights some of the good practice developed by local authorities, such as information provision for tenants. Other areas, such as involving tenants in discussing the schemes, could receive more attention.

The tenants we spoke to were convinced of the need for home contents insurance, and saw particular advantages for tenants in the local authority schemes. They felt that the tenants’ movement should be taking a more proactive role in promoting this form of insurance. The Scottish Consumer Council invites tenants’ organisations to use this report to that end.

Some areas of concern still have to be addressed, for example the following, which arose from our discussion with tenants.

- Local authorities need to pay attention to the vulnerability of young people. There is a need for education on the importance of insurance and on budgeting on low incomes.

- Local authorities need to clarify the role of rent arrears in access to insurance schemes. Our research revealed that some 530 tenants were refused access to schemes over the past year due to rent arrears. It could be argued that insurers are entitled to exclude tenants with rent arrears to reduce the risk of bad debt on the scheme. However, as cover lapses when premiums are not paid, this is perhaps a weak argument. It also raises questions about the role of the council in passing on information about tenants’ rent arrears to insurers. One local authority indicated that it was the council’s own policy to screen applications for rent arrears, a practice which is questionable, particularly if it is not done at the request of the insurer. We believe this is an area which should be explored in more detail than is possible in this report.

An important area of concern is the lack of clarity about the role of both local authorities and brokers as agents. It is vital that policy booklets spell out exactly who acts as whose agent, particularly in the event of a problem occurring and tenants wishing to make a complaint.

With regard to complaints, it was worrying to note that a significant number of policy booklets contained no information on how to make a complaint, and no information about the identity of the insurer. It is not easy to see how a valid insurance contract can be held to exist if the tenant is unaware of the insurer’s identity. These issues should receive the urgent attention of those involved in running local authority schemes.

At the time of our research the majority of local authorities in Scotland did not operate insurance schemes for tenants. There were only a small number of insurance companies involved in this sort of scheme. The scope for expansion, therefore, is quite considerable, and there is room for the new local authorities to learn from the experiences of the local authorities involved in our research. This report is presented as a stimulus to that expansion.
5.2 Recommendations

TO TENANTS AND TENANTS' ORGANISATIONS

1. Tenants should be aware of the importance of home contents insurance policies.

Home contents insurance is important. Insurance policies vary according to the risks and belongings covered, the minimum sums insured, the premiums charged, etc. Tenants should be aware of the options for obtaining home contents insurance, and should shop around for the policy that meets their needs at the best cost. In doing so, tenants should take into account the particular advantages of local authority schemes, such as payment by instalment without the need for a bank account, quick settlement of claims, and safety measures carried out by the local authority.

2. Tenants should be aware of the problems of under-insurance.

The minimum sum insured is only the lowest value available. This may, or may not, be enough to cover the value of the home contents. Some local authorities provide leaflets to help tenants work out a realistic amount to insure for. It is easy to undervalue home contents, and if this happens, the insurance company may pay out only a part of any claim made.

3. Tenants should take heed of safety guidelines given in policy booklets.

Most of the policy booklets issued by local authorities contain information about safety in the home. This information relates to common causes of accident and loss, and is therefore useful preventative advice. Moreover, it is usually a condition of the insurance policy that tenants take reasonable precautions to avoid damage. Each tenant in an insurance scheme plays a part in the survival of the scheme for all tenants - heeding safety precautions will help in this.

4. Tenants should be aware of the Right to Repair.

Insurance policies generally require tenants to take reasonable steps to keep their home in good repair. A poor state of repair, for example, can lead to a high level of insurance claims, which may jeopardise the future of the scheme. Ensuring good repair can sometimes mean requesting prompt action from the local authority, and tenants should be aware of the Right to Repair.

5. Tenants should make sure they know who to contact in the event of a complaint.

Insurance can become complicated, and disputes may arise over any aspect of a policy or claim. Tenants should make sure they know who will handle any complaints they may have. It will not necessarily be the local authority. Tenants should find out if the insurer belongs to the Association of British Insurers and/or the Insurance Ombudsman Bureau.
6. **Tenants' organisations should formulate a policy on advocating insurance for all tenants.**

The tenants at our meeting were keen for the tenants' movement to play an active role in developing insurance schemes. A debate on the issues of advocating tenants' insurance schemes will help clarify the implications, for example for tenancy agreements and social security benefits. Once they have developed a view on these issues, tenants' organisations should take this forward and make representations.

7. **Tenants' organisations should find out about tenants' insurance needs in their areas.**

To act as a catalyst in their own areas, either for setting up new insurance schemes or to improve existing ones, tenants' organisations themselves should find out about tenants' insurance needs. Advice on consulting tenants may be available from the local authority which may employ researchers. Some points to bear in mind when consulting tenants are given in Appendix 3.

8. **Tenants' organisations should take a pro-active role in establishing insurance schemes.**

Tenants' representatives should approach local authorities and insurance companies, either to set up new schemes or improve existing ones. Home contents insurance is a product, sold by insurance companies and administered by local authorities. As such, it will more closely meet the needs of tenants if they themselves are involved in its design. Only one local authority - Edinburgh - had attempted to involve tenants in devising or improving their scheme. Tenants' organisations need to take the lead on this.

9. **Tenants' organisations should encourage their local authority to promote education for young people about insurance and household budgeting.**

It is essential that young people are equipped with an understanding of basic personal finance, including household budgeting and insurance. Without this, they are likely to make costly mistakes later in life. Tenants' organisations should find out what their local authority is doing to help schools teach young people about personal finance.

10. **Tenants’ organisations should talk to local authorities about safety initiatives.**

Safety initiatives can help improve the viability of an insurance scheme, which is in the interests of all tenants. Tenants' representatives should familiarise themselves with any safety initiatives being discussed between local authorities and insurers, as they may be in a position to comment on these on behalf of tenants, or add ideas coming from tenants themselves.
TO LOCAL AUTHORITIES

11. Local authorities should attempt to provide an insurance scheme for their tenants.

The majority of local authorities in Scotland do not run insurance schemes for their tenants. Local authorities should discuss with tenants the need for insurance in their area, and approach insurance companies about the possibility of establishing a scheme.

12. Local authorities which have schemes should take a pro-active approach to informing tenants about them.

It is to everyone's advantage that all tenants are aware of the insurance scheme. Local authorities should find out how effective their current information is, and might enlist the support of tenants' organisations in devising more imaginative ways of telling tenants about their schemes. Information should include details of the various benefits of the scheme, to encourage take-up among those who might choose another insurance policy purely on the basis of lower premiums.

13. Local authorities should actively seek improvements to their schemes.

Local authorities should take an active approach to improving their schemes for tenants. This should include seeking tenants' views on potential improvements. At the time of our survey no local authorities were planning changes or improvements to their schemes as a result of suggestions by tenants.

14. Local authorities should become involved in monitoring their schemes.

Insurers monitor their schemes to identify action which may need to be taken to ensure the viability of the scheme. Local authorities should become aware of how their schemes are monitored, and should become involved at all stages. Only nine local authorities were involved in analysing data about their schemes.

15. Local authorities should develop methods of accountability within their schemes.

Local authorities are contracting a service from a private company. They should establish methods of accountability to justify their continuing involvement with any particular company. Two aspects of accountability - competitive tendering of contracts, and setting performance standards - were not widely adopted by the local authorities in our survey.

16. Local authorities should ensure that all their front-line staff have full details of the schemes, or can easily refer to another member of staff who does.

Tenants may approach the local authority to ask for general information about the scheme, or for specific information. Tenants should be easily referred to a member of staff who has full information about the scheme. There is evidence from our research that staff training is not a priority within insurance schemes. Some staff were unsure of some important details, such as whether the insurer was a member of the Association of British Insurers or the Insurance Ombudsman Bureau, or even who the insurer was.
17. Local authorities should get involved in education for young people about insurance and household budgeting.

There is recent evidence that young people are entering adult life without a basic understanding of personal finance issues. Local authorities should seek ways of working with schools to help ensure young people have the opportunity to develop essential skills such as household budgeting. There are many examples of local authority departments working with schools on various issues.

18. Local authorities should involve tenants' organisations in discussing safety initiatives.

Safety initiatives which may be suggested by insurers will undoubtedly benefit tenants. However, to make sure these initiatives are successful, the local authority should discuss any implications with tenants.

19. Local authorities should encourage tenants' organisations to consult tenants.

Tenants will have much to say about their insurance needs, about the practicalities of safety initiatives, and related issues. Tenants' organisations are well placed to seek these views and present them to local authorities and insurers. However, finding out tenants' views and making use of the information is not a straightforward matter, and tenants' organisations may need advice and support to do this. The local authority, as a landlord, should encourage and support tenants' organisations in consulting tenants.

20. Local authorities should regularly update and review information about their schemes, and make sure it is brought to the attention of all tenants.

Information can easily become out of date. It can also be difficult to make sure the information reaches everyone. Only ten of the local authorities in our survey had a regular practice of updating information about their scheme, and only seven were proactive in distributing it. If it is left for tenants to ask, some may suffer disadvantage because they do not find out. Time spent reviewing information will help minimise time spent handling fruitless enquiries from an ill-informed public, for example, some of the information sent to us by local authorities contained the old address for the Insurance Ombudsman Bureau.

21. Local authorities should make sure tenants are given information about the problems of under-insurance.

Under-insurance can be a costly mistake for tenants. Local authorities should make sure tenants are given clear warnings about this, and should provide tenants with guidance on how to arrive at a realistic value for their home contents.
22. **Local authorities should make sure the identity of the insurer is made clear to tenants.**

Some local authorities provided information to tenants which contained no details about the identity of the insurer. It is difficult to see how a valid insurance contract can exist when tenants do not have this information. Tenants need to know who the insurer is, particularly when a problem occurs.

23. **Local authorities should make sure that policy booklets contain information on how to make a complaint.**

Insurance companies are used to dealing with complaints. Tenants are less likely to be so. Local authorities should make sure policy booklets contain advice for tenants on how to pursue a complaint, should the need arise. Tenants need to know who will handle any complaints they may have, and what steps are open to them. Details should be given, in the policy booklet, of the insurance company and of the Association of British Insurers and Insurance Ombudsman Bureau (if applicable). Not all of the policy booklets issued by local authorities contain this information.

24. **Local authorities should clarify the different roles of those involved in schemes.**

Most of the policy booklets we looked at described the local authority as an “agent” of the insurer. However, the extent of the agency was not explained. Tenants need to know in which circumstances the council acts as the insurer’s agent, and they need to know whether the broker is acting on behalf of the council or the tenant. It is important that these roles are clarified, not only in the event of a complaint, but to clarify the legal responsibilities of tenants (eg in giving information to the insurer).

25. **Local authorities should provide tenants with information about loss assessors.**

The role of the loss adjuster is prominent in local authority schemes. However, the loss adjuster works for the insurance company, and tenants might wish to consider hiring a loss assessor to handle their claim.

26. **Local authorities should adopt a policy of notifying tenants of arrears with premiums.**

This should include informing tenants what the notification procedure will be, should they fall into arrears. The local authority should also adopt a method of providing advice or assistance to tenants at an early stage of any arrears with the insurance premium. Tenants should be offered the opportunity to appeal against withdrawal from the scheme because of arrears. Local authorities should advise tenants of how payments will be allocated between rent and insurance premiums if less than the full amount due is paid.
27. **Local authorities should clarify their position on rent arrears and insurance.**

The tenants at our meeting were suspicious of local authorities’ approach to rent arrears and insurance, and indeed our survey revealed that some 530 tenants were refused access to schemes because of rent arrears. There was an indication that local authorities were screening insurance applications for rent arrears and deciding whether to forward policy proposals, although this was not at the request of the insurer. Tenants should not be refused access to insurance by the local authority on the basis of rent arrears. This area needs further exploration, and tenants should be fully informed about the local authority’s policy on vetting applications according to rent arrears.

**TO INSURANCE COMPANIES**

28. **Insurance companies should discuss with local authorities and tenants’ organisations the expansion of insurance schemes in Scotland.**

The majority of local authorities in Scotland do not have insurance schemes for their tenants. This report indicates where new schemes can be developed. Local authorities and tenants’ organisations can contribute to the success of a scheme, and tenants’ representatives have expressed an interest in developing them.

29. **Insurance companies should involve local authorities and tenants’ organisations in monitoring schemes.**

Local authorities and tenants will be more able to take appropriate action to maintain the viability of a scheme if they are involved in monitoring the scheme. Only half of the local authorities analyse data about their schemes.

30. **Insurance companies should involve tenants’ organisations in discussing safety initiatives.**

Safety initiatives, whether suggested by the insurer or the local authority, will have practical implications for the tenants whose homes are affected. To ensure the success of these initiatives, insurance companies should include tenants’ organisations in any discussions.

31. **Insurance companies should assist local authorities in developing their systems for administering the schemes.**

Many local authorities value the advice of insurers and brokers on ways of administering schemes. Efficient administration brings the benefit of savings to all involved in the scheme.
32. Insurance companies should specify the company's policy on under-insurance.

Policy booklets contain warnings about under-insurance. It can be easy for tenants to underestimate the value of their home contents. Clear information about the possible consequences of under-insurance, as well as guidance on how to make a realistic assessment of the value of their home contents, will help minimise the risk to tenants.

33. Insurance companies should specify the company's policy on dealing with tenants who have a poor claims record.

Tenants may not realise that they can be disqualified from a scheme if they have a poor claims record. If this is likely to lead them into difficulties in obtaining insurance elsewhere, then tenants need clear information so they can weigh up the risks and make the best choice about insurance.

34. Insurance companies should make sure policy booklets contain information on the company's complaints procedure.

Tenants need to know how to make a complaint, should the need arise. Insurance companies should make sure policy booklets contain details about the insurer, and the Association of British Insurers and Insurance Ombudsman Bureau (if applicable). Not all policy booklets contain this information.
REFERENCES


2. At the time of writing, the housing stock of Berwickshire District Council was transferred to a housing association, therefore there were no tenants of this local authority.


4. From the results of a survey by ProShare, reported in the Scotsman, 19 August 1995.


6. The information for this textbox was taken from publicity material produced by the ABI.
APPENDIX 1  DISCUSSION SCHEDULES

SCOTTISH CONSUMER COUNCIL

HOME CONTENTS INSURANCE — MEETING FOR TENANTS REPRESENTATIVES

TUESDAY 25 JULY 1995

SCHEDULE

• The need for home contents insurance

• What happens when tenants are not insured? (disasters, floods etc.)

• What is good/bad about local authority schemes?

• What features should a local authority scheme contain? information, complaints procedures etc.

• What are the important issues for tenants? availability of schemes, contact with insurers etc.
SCOTTISH CONSUMER COUNCIL

HOME CONTENTS INSURANCE

DISCUSSION SCHEDULE FOR INSURANCE COMPANIES AND BROKERS

- Local authority schemes: risk assessment issues
- How can local authorities make a scheme successful?
- Are there issues about the relationship between insurers and local authorities?
- Are there issues specific to claims made via local authority schemes?
APPENDIX 2  TELEPHONE QUESTIONNAIRE FOR LOCAL AUTHORITIES

SCOTTISH CONSUMER COUNCIL

DISTRICT COUNCIL

ABOUT THE SCHEME

1. When did your current home contents insurance scheme begin?

2. What is the minimum sum insured in your scheme?
   £_____ (OAPs, if applicable)
   £_____ (all tenants)

3. What is the premium for the minimum sum insured?
   £_____ per £_____ (OAPs, if applicable)
   £_____ per £_____ (all tenants)

4. Is the premium collected with rent?
   YES ☐
   NO ☐

   If not, how is the premium collected?

5. Please tell us about any changes or improvements made to your current scheme in the last year.

6. Are any changes or improvements planned as a result of:
   YES ☐  NO ☐
   suggestions by the local authority
   suggestions by insurers
   suggestions by tenants
   local government reform

   If you have answered "YES" to any of the above, please tell us about these.
ABOUT THE INSURERS

1. Which insurance company underwrites your scheme?

2. Which insurance broker is involved in your scheme?

3. Which company of loss adjusters is involved in your scheme?

4. Is the insurance company a member of the Association of British Insurers?
   
   YES ☐
   
   NO ☐

5. Is the insurance company a member of the Insurance Ombudsman Bureau?
   
   YES ☐
   
   NO ☐

6. Have the insurers suggested any safety initiatives by which the local authority might improve the efficiency of the current scheme (eg. providing safety information for tenants, fitting smoke alarms in houses, etc.)?
   
   YES ☐
   
   NO ☐

   If "YES", please tell us about these.

7. Is your current scheme subject to a tendering process?
   
   YES ☐
   
   NO ☐

   If YES, please tell us about this.
ABOUT THE TENANTS

1. How many houses are owned by the local authority?

2. How many tenants participate in the insurance scheme?

3. Approximately how many tenants have joined the scheme over the last year?

4. Approximately how many tenants have been refused access to the insurance scheme, over the last year, due to rent arrears?

5. Approximately how many tenants have been refused access to the insurance scheme, over the last year, due to other reasons?

6. Approximately how many tenants have been expelled from the scheme during the last year?

7. Approximately how many tenants have left the scheme (of their own accord) over the last year?

8. Does the local authority set performance standards for:
   - the insurance company
   - the insurance broker
   - the loss adjuster

If you have answered "YES" to any of the above, please tell us about these.

9. How satisfied are you with the service provided by:
   - the insurance company
   - the insurance broker
   - the loss adjuster
8. Do you monitor the reasons why tenants leave the insurance scheme?

9. Has the local authority conducted a survey of tenants' insurance needs?
   YES  □
   NO   □

   If YES, please tell us about this.

10. Has the local authority involved tenants in devising or improving the insurance scheme?
    YES  □
    NO   □

    If YES, please tell us about this.

11. Are tenants notified if they fall into arrears with their insurance premium?
ABOUT THE LOCAL AUTHORITY

1. What tasks does the local authority undertake for the insurance scheme?

   YES  NO
   collect premiums       □   □
   produce information    □   □
   correspond with tenants □   □
   handle complaints from tenants □   □
   analyse data about the scheme □   □
   give tenants advice about insurance □   □
   negotiate with insurers □   □
   other tasks
   (please specify)

   If you have replied "YES" to either of the above, please tell us about this.

2. What local authority departments are involved in the insurance scheme?

3. Please tell us about staff training for the insurance scheme.

12. Please tell us about any advice or assistance the local authority offers to tenants who fall into arrears with their insurance premiums, or who have rent arrears when applying to join the scheme.
4. How are staff kept up to date with the scheme?

5. What information does the local authority provide for tenants about the scheme?

6. How often is this updated?

7. How do tenants get the information?

8. Does the local authority provide information about insurance for use by schools or young people?

   YES  
   ☐

   NO  
   ☐

   If YES, please tell us about this.

   Please add anything else you would like to tell us about your scheme.
APPENDIX 3  A NOTE TO TENANTS’ ORGANISATIONS ON CONSULTING TENANTS

As a stimulus to thinking about consulting tenants, here are some points to bear in mind:

- By consulting tenants you will have raised their expectation that you are going to do something: be certain to make it clear from the beginning what is going to happen after the consultation.

- Consultation is a two-way process: you give tenants information about what you are trying to do, and you give tenants a way of giving their views.

- To be a worthwhile exercise you will have to consider:
  - a method for aggregating tenants’ views; and
  - how you are going to take these forward.

The main methods of consultation fall into two broad categories:

- discussion-based consultation (known as qualitative methods); and
- survey-type consultation (known as quantitative methods).

Discussion-based, or qualitative methods of consultation are appropriate ways of finding out people’s expectations of a new service. The methods which fall into this category are particularly useful for testing out reactions, and exploring people’s different perceptions.

Quantitative consultation (usually survey based) is used to answer the “how many?” questions. This type of consultation has to be rigorously designed, as the results may well be used as evidence of a need, and might form the basis of a business plan to develop a new service.

- Be clear from the beginning who is to be responsible for doing what. Consultation involves a lot of people undertaking a lot of tasks over a long time.

- Make sure you know which tenants you need to ask (and why), and how you are going to contact them.

- Make sure you have a way of keeping in touch with tenants, to let them know the outcome of the consultation, and keep them informed of what is going to happen next.

- Your task will be to represent the views of tenants. This means making known the views which tenants have expressed to you; these might not be the same as your organisation’s view!

- Tenants may well be divided in their opinion, and you will have to discuss how you are going to handle this.
USEFUL ADDRESSES

Association of British Insurers
51 Gresham Street
London EC2V 7HQ
Telephone 0171 600 3333

Chartered Institute of Loss Adjusters
Manfield House
376 Strand
London WC2R 0LR
Telephone 0171 240 1496

Institute of Public Loss Assessors
14 Red Lion Street
Chesham
Bucks HP5 1HB
Telephone 01494 782342

Insurance Brokers Registration Council
15 St Helens Place
London EC3A 6DE
Telephone 0171 588 4387

Insurance Ombudsman Bureau
City Gate One
135 Park Street
London SE1 9EA
Telephone 0171 928 4488

Scottish Federation of Housing Associations
38 York Place
Edinburgh EH1 3HU
Telephone 0131 556 5777