



Financial Inclusion: Access to insurance

SPIU Briefings No. 3 March 2010

“This briefing paper provides a brief overview of access to home contents insurance for low income households ”

Key Points

- Over the last decade policy interest in access to insurance in financial inclusion strategies has fluctuated. In 1999 access to insurance was highlighted as a key factor in financial inclusion, but by 2004 it had almost disappeared. However, by 2009 it was firmly back on the agenda in the Government’s Financial Inclusion Strategy.
- Home insurance is seen as the most basic form of insurance that should be held by all households. A significant number of households living on a low or very low income have no home contents insurance and are therefore classed as financially excluded on that basis.
- Research indicates that home contents insurance is viewed as being important by low income householders. This implies that while people are aware of the benefits of having home contents insurance this does not lead to them purchasing it.
- Although affordability is often given as a reason, there appears to be no single explanation for the lack of home contents insurance in low income households. Among other issues, the products available to low income households and how premiums are collected appear to be important factors.
- Lack of home contents insurance is strongly linked to other forms of exclusion and disadvantage. Low income households who have no home contents insurance tend to live in disadvantaged areas, lack a suitable bank account, and live in rented (both socially rented and private) accommodation.
- Tenants renting from social landlords are most likely not to have home contents insurance. Schemes to provide insurance with rent have gone some way to meeting the needs of this group, but the gains have been small.
- Further research into why insurance with rent schemes have low take up rates and what types of solution would increase access for all low income groups is required.



Access to Insurance

The need for various types of insurance is generally accepted by members of all income groups, and most households, even those living on a low income, have some form of insurance to cushion them against unexpected events. However, access to insurance is a complex issue. It is not necessary for a household to purchase every type of insurance in order to be considered financially included. In addition, there are differing degrees of compulsion in terms of insurance with the purchase of home contents insurance attracting no incentives or encouragement by government¹. Home contents insurance (HCI) is seen as the most basic form of insurance,² and with the exception of homeless and roofless people, all households have some degree of need for protection of their property against theft or damage.

The reasons why low income households are less likely than average income households to hold some form of HCI are complex. Interlinked issues of affordability, the lack of suitable products, as well as the relative importance placed on HCI when setting spending priorities, all have some impact upon whether low income households purchase or maintain it.

As far back as 1999 HCI was identified as important for financial inclusion, but by 2004 there were no policy actions to increase access to HCI in the financial inclusion strategy. Access to banking and affordable credit continue to be the main focus of financial inclusion policy and strategy. However, there is now an acceptance that specific and targeted policy actions are required to increase access to HCI for low income groups.³

Data, Distribution & Trends

More than half of households with low or very low incomes have no HCI compared with around 20% of households with an average income and 10% of high income households^{4 5}. A study conducted by the Association of British Insurers⁶ highlighted the importance placed upon HCI by people from each of the three income groups.

Table 1 The importance placed on having home contents insurance⁷

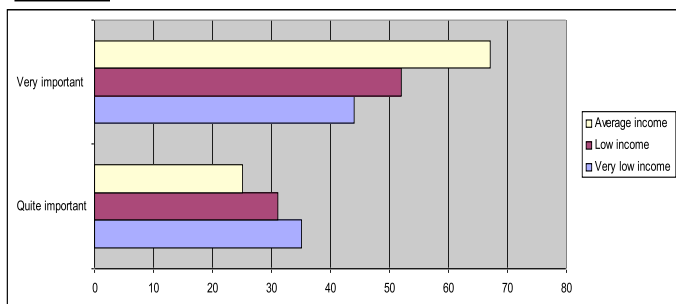
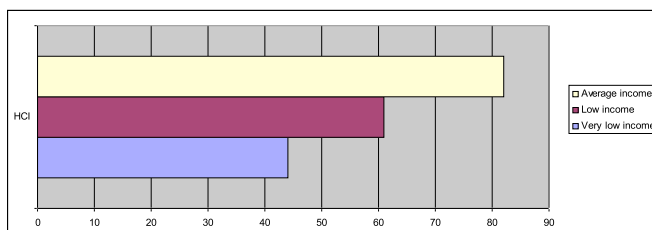


Table 1 highlights differences in the importance placed on purchasing HCI by average, low and very low income groups. Table 2 shows that the numbers of those holding HCI relates strongly to those who think it is very important and also to income group.

Table 2 Holdings of home contents insurance by income group⁸

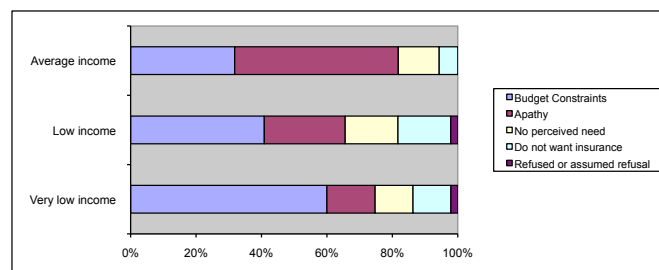


The figures in the tables above cover the whole of the UK. In Scotland in particular, research has shown that those living in the 15% most deprived neighbourhoods in Scotland were less likely to have HCI than those living in less deprived areas⁹.

Key Factors, Associations & Causes

As outlined above, there is a number of possible reasons why people living on a low income do not have HCI. Table 3 shows the reasons given by different income groups.

Table 3 Reasons for not purchasing home contents insurance by income group¹⁰



The table shows that affordability is the biggest issue in the poorest households. The researchers suggested two probable reasons for this. Firstly, mainstream HCI products are too expensive and secondly, low income and very low income households cannot afford it no matter how low the cost.

It is important to highlight that the issue of affordability is not straightforward¹¹. Blake & de Jong (2007) argue that some people do not want to purchase insurance either because they believe they have no need for it or they think the cost is not justified for the amount of risk involved. The New Policy Institute (2007) questions whether lower income households are discriminated against by insurance companies through higher costing premiums or through refusing to provide cover at all in particular areas. This is known as 'redlining', but there is little evidence that it occurs to any great extent in the UK¹².

Other explanations proposed to explain why a significant proportion of low income households do not have HCI include:

- insurance companies no longer use doorstep collections to collect premiums through agents, and people living on

a low income often do not have a bank account which has direct debit facilities¹³

- people tend to buy products their friends and family buy, therefore if it is the norm not to have HCI within a social network it is difficult to change the status quo
- the situation may be exacerbated by a lack of trust in insurance companies and financial institutions, particularly where a family member or friend has had a negative experience of a particular financial service
- monthly payments do not fit well with weekly budgeting cycles¹⁴
- products available are not suited to the needs of low income households: the minimum sum insured can be too high, as can the excess on a standard policy
- an increasing number of HCI policies are purchased over the telephone and internet sites and require a bank account, as well as a particular level of literacy and numeracy and IT skills.

Personal Consequences & Social Effects

Those living in deprived areas which are subject to higher levels of crime and therefore are at higher risk of burglary and theft are least likely to have some form of HCI¹⁵. Households living on a very low income are more likely to be burgled than those on a higher income, as are those living in socially rented housing¹⁶. In addition, state support for uninsured people has gradually been reduced over the last two decades¹⁷, so that, in times of crisis, those most in need of support are dependent upon very limited public assistance.

There are two main ways in which poverty impacts upon access to HCI:

- people on low incomes tend not to have high quality or expensive goods and may not view their possessions as worth insuring; and
- low income households are unlikely to have a large disposable income and the cost of insurance, however little, may be too much after meeting day-to-day expenses.

In terms of financial exclusion, low take up of HCI is a concern for the following reasons:

- where households have no savings or safety net they may have to use credit to replace goods that are stolen or damaged. People on a low income are less likely to be able to access affordable credit therefore replacing the goods may lead to them being worse off; and
- in times of emergency, such as flood or storm damage, people without insurance will require emergency support from the local authorities which can put pressure on already stretched social services.

Policy Responses & Proposals

Two related types of response are designed to address issues of access to HCI: government action and insurance industry action.

The UK Government set out its most recent financial inclusion policy aims and proposals in March 2007¹⁸. This included establishing an Insurance Working Group to examine three issues:

- the types of insurance required by those experiencing financial exclusion
- the barriers to purchasing HCI for low income households and other financially excluded groups; and
- how the barriers can be overcome with particular reference to insurance with rent schemes and projects designed to reduce risk.

The focus of government policy is on increasing the uptake of HCI as opposed to other types of insurance as research has shown that there is a greater demand for this among very low income households¹⁹. The Insurance Working Group identified those living in rented accommodation as being at greater risk of having no HCI compared to home owners. One reason for this could be that people with mortgages are required to have buildings insurance which is often sold as a package with HCI²⁰.

The Government's main policy response involves offering HCI through social housing providers and paid with rent. Such Insurance with Rent (IWR) schemes are offered through housing associations and other social landlords and aimed at providing affordable HCI to low income households. However, take up of these policies is low, and they are only available to tenants of registered social landlords; therefore tenants in private rented accommodation are not able to access the schemes.

In addition to the government policy responses, the Association of British Insurers has an inclusion action plan. This includes the following activities in relation to increasing take up of HCI among low income groups:

- produce consumer fact sheets detailing a range of insurance products;
- support insurers to fund research and financial inclusion initiatives;
- produce targeted customer information and advice on managing risk and accessing insurance to meet their needs;
- work with housing associations and local authorities to increase uptake of insurance with rent schemes; and
- explore ways to make insurance more accessible and affordable to low income households, for example through credit unions.



Conclusions

Increasing access to HCI for people living on low or very low incomes is possible with government and industry support. However, further research is required to explore solutions that meet the needs of all low income consumers, rather than only those renting from social landlords.

The Government and insurance industry must work together to design products that enable low income groups to access appropriate HCI in a way that suits their budgeting and spending priorities. The establishment of the Insurance Working Group is an important step towards developing such solutions and to encouraging a working relationship between the government and the insurance industry.

About the Author

Kate Lindsay is a Research Fellow at the Scottish Poverty Information Unit. As well as having an interest in inequalities in Scotland, Kate is interested in community based research, particularly in relation to health in disadvantaged areas. Contact kate.lindsay@gcu.ac.uk

Currency

The SPIU Briefing Paper will remain current until the second edition of this paper is published by September 2011 at the latest.

Citation

Lindsay, K (2010) Financial Inclusion: Access to Insurance. SPIU Briefing Number 3. Glasgow: Scottish Poverty Information Unit, Glasgow Caledonian University.

References

- ¹ Blake, S. and de Jong, E. (2008) Short Changed: Financial Exclusion: A Guide For Donors And Funders. London: New Philanthropy Capital.
- ² Association of British Insurers, (2007a) Access for All: Extending The Reach Of Insurance Protection. London: ABI.
- ³ New Policy Institute, (2007) Snapshot Of Financial Inclusion Policy And Practice In The UK 2007. Dorking: Friends Provident Foundation.

⁴ Very low income is defined as less than £10,000 per year, low income as between £10,000 and £14,999 per year and average income as £15,000 to £30,000 by the Association of British Insurers

⁵ Blake & de Jong, (2008) op.cit.

⁶ Association of British Insurers, (2007a) op.cit.

⁷ Association of British Insurers, (2007a) op.cit.

⁸ Association of British Insurers (2007b) Financial Inclusion And Insurance: Meeting Low-Income Consumers' Needs. A Quantitative Study Into Low-Income Consumers' Demand For Insurance And Their Experience In Accessing Insurance. London: ABI Research Department. Market Study No 3.

⁹ Vestri, P (2007) Exploring The Take-Up Of Home Contents Insurance. Edinburgh: Scottish Executive.

¹⁰ Association of British Insurers, (2007a) op.cit.

¹¹ Insurance Working Group, (2008)

¹² New Policy Institute, (2007) op.cit.

¹³ Burton, D, Knights, D, Leyshon, A, Alferoff, C. and Signoretta, P. (2005) 'Consumption Denied? The Decline Of Industrial Branch insurance'. The Journal of Consumer Culture. 5 (2). pp. 181-205

¹⁴ Blake & de Jong, (2008) op.cit.

¹⁵ Palmer, G, Wilcox, S. and Kenway, P. (2006) Housing and Neighbourhoods Monitor. New Policy Institute. Available at: <http://www.npi.org.uk/reports/housing%20and%20neighbourhoods.pdf> [Accessed Setember 2008]

¹⁶ Association of British Insurers, (2007a) op.cit; 2007b op. cit; Vestri, 2007 op.cit.

¹⁷ Association of British Insurers, (2007b) op.cit.

¹⁸ HM Treasury, (2007) Financial Inclusion: The Way Forward. London: HM Treasury.

¹⁹ Financial Inclusion Taskforce, (2008) Report On Findings Into Insurance And Financial Inclusion. London: FSA Insurance Working Group..

²⁰ Blake & de Jong, (2008) op.cit.