findings

Access to home contents insurance for low-income households

Around one in five households do not have insurance to cover their possessions in the event of a burglary, fire or flood, more than five million in total. Research from the Policy Studies Institute and Institute for Public Policy Research has explored who these households are, why they are uninsured, the risks they face and ways of extending cover to the most vulnerable households. They found:

- Uninsured households were disproportionately likely to have low incomes, few savings, and to be facing financial difficulties. They were predominantly tenants and lived in metropolitan areas.

- About half of households interviewed without home contents insurance had a policy in the past but let it lapse, largely because they were facing financial strain.

- The remaining half were mainly people on the margins of financial services generally. They tended not to have a bank account or any savings, and had not come into contact with companies selling home contents insurance.

- The majority of uninsured households interviewed were aware of the risks they faced, especially with regard to burglary. Around one in seven had lost possessions through theft, fire or flood and more than half had not been able to replace them. Others had to borrow from family or the Social Fund to buy replacements.

- Standard conditions of commercial insurance policies meant they were often unsuitable for this market. For instance, standard levels of excess payments and minimum sums insured are often too high for households with few valuables; and the lack of frequent cash payment facilities for some applicants makes payment impossible for those on low incomes without bank accounts. As the insurance industry has become more sophisticated in measuring risks at a local level, premiums have become relatively higher in the highest risk areas, where most uninsured households tend to live.

- A range of intermediate insurance markets has developed, based on commercial partnerships between insurance companies and local authorities, housing associations and community credit unions that target low-income households. Many of these have been successful in providing appropriate insurance cover.

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Which households are uninsured?

Currently 20 per cent of households do not have insurance to cover their home contents in the event of theft, fire or flood. These consist primarily of young, white households, mostly single but with high proportions of young families and lone parents. Many of the household heads are unemployed, have low incomes, are without bank accounts and have little, if any, money in savings. Most are tenants, living in deprived urban areas.

Unsurprisingly, more than half of households who had suffered loss had not managed to replace stolen or damaged possessions. Those who had, tended to have borrowed either from family or friends, or from the government's Social Fund.

Why are some households uninsured?

Statistical models suggest that it is 'financial strain' - the demands made on household income - and the cost and availability of home contents insurance, rather than simply income level, that determine the odds of a household being insured. In addition, personal characteristics meant some households were less likely to feel they need home content insurance.

Previously insured households

A little under half of those currently without a policy have had one in the past, but have let it lapse. On the whole this was associated with financial difficulty, causing people to reassess their need for home contents insurance. Most commonly, they said that they would have liked insurance but could not afford it. A much smaller number of previously insured people had decided against renewing a policy because they felt it offered poor value for money. These judgements were typically formed after bad experiences of trying to claim rather than due to financial constraint.

Never-insured households

These people were, as a group, far more marginalised from financial services generally. Around a fifth of them had not yet got round to insuring, but looked likely to do so in the future. The majority had no bank account, nor did they have any money saved. They were long-term poor and lived in neighbourhoods where the risks of burglary were highest. Very few had chosen not to be insured because of principled objections to insurance.

Only a very small minority of uninsured households had actually been refused home contents insurance. Typically, they did have access to the market, but only at a price which was way beyond their means, and/or offered with a method of payment which was inappropriate to their circumstances. However, around one in ten uninsured households were clearly marginalised from financial services as a whole, had not come into contact with companies selling home contents insurance and consequently had never thought of taking out a policy.

Risk assessment

One in six of all households had experienced loss or damage to their home contents as a result of a fire, flood or burglary in the previous three years. Burglary was twice as common as fire or flood. On the whole, never-insured households were the least likely to have suffered loss or damage - particularly from fire or flood.

In-depth interviews with uninsured households indicated that the majority were aware of the risks that they faced - although this was related more to burglary than to fire or flood. Broadly speaking, they fell into four groups according to how they assessed risk and made decisions about insurance.

Risk averse

This group was acutely aware of risk and very anxious to mitigate its effects. On the whole, uninsured risk averse households had tried to get insurance but were prevented by problems of access and price.

Risk calculators

'Risk calculators' made a detailed assessment of their personal risks and weighed these up against the cost of insurance. Many of those who subsequently decided not to insure felt that they faced low risks, or had few possessions to protect. They often had other strategies for replacing stolen or damaged goods.

Risk resigned

This group was broadly aware of the risks and possible consequences of being uninsured but had not seriously applied them to their own circumstances. Many had very tight finances, were marginalised from financial services and were rather fatalistic about their circumstances.

Risk unaware

Those who were 'risk unaware' tended to have a relatively relaxed view of life. They also tended to be better-off than most uninsured households and less likely to have recent experience of a fire, flood or burglary.

Insurance provision for low-income households

Insurance industry claims that the great majority of households in the country can get access to home contents insurance if they want it are generally borne out by the research. While it is true that relatively few low-income households are refused outright, this research suggests that some standard policy conditions and payment procedures are inappropriate for this group.

Marketing

The research found that very little marketing by mainstream commercial companies is aimed at those on low incomes, with the single exception of pensioners. Most of the competition is weighted towards attracting 'switchers' - the already insured - rather than the uninsured.

Policy conditions

Mainstream insurance products on offer are often inappropriate for people on low incomes. The predominance of more expensive 'new for old' insurance cover, and the reluctance to reduce the costs of premiums by offering policies tailored towards specific risks such as fire and flood, restricts choice for those with only a little cash to spare.

Other conditions attached to policies, such as high excess payments and minimum sums insured, can also reduce their value for low-income households, who typically have less of value to insure. In addition, the costs of securing the home to a specified standard are often prohibitive for these households.

Affordability

High risk areas attract high premiums, and these are the very areas where most uninsured low-income households are found. For the one in five households without a bank account, the lack of options for payment by regular instalment and the dearth of cash-payment facilities are a particular obstacle.

Insurance through intermediaries

The research found that many households felt either that insurance companies are not interested in insuring them, or that the policies on offer do not reflect their needs. However, there is a group of insurance companies, including some of the traditional home service insurers, who specifically target low-income households and understand their needs. They continue to target this end of the market because of the low levels of competition they face and because customer loyalty tends to be stronger.

These commercial partnerships between insurance companies and a range of intermediaries include 'insure with rent', run by local authorities. This is the largest intermediate insurance market, although similar schemes are also operated by housing associations, credit unions and certain affinity groups such as charities for older people.

The expansion of schemes in local authorities has been more marked than for housing associations. This partly reflects the latter's reluctance to become involved in premium collection but is also due to the traditional targeting effort of insurers and brokers. However, the rate of growth of housing association schemes in recent years has been rapid. Currently just under half of local authorities and one in five housing associations offer insurance schemes to their tenants. In general these schemes are most common in the metropolitan areas, where the number of tenants who are currently uninsured is highest. In addition, most community credit union members now have access to national insurance schemes negotiated by their organising bodies, although geographical coverage of credit unions remains uneven.

The advantages of intermediate provision

Intermediate schemes are able to overcome many of the barriers faced by households on low incomes.

Marketing

The focus of activity in this part of the market is on serving the uninsured rather than the already insured. In many cases insurance can be marketed to tenants just as it is commonly sold to home buyers with the mortgage.

Policy conditions

Intermediate insurance policies generally include cover on a new-for-old basis and include all major risks, along with some cover for accidental damage.

They frequently offer a wide range of payment options, including payment with rent on a weekly basis. They tend to offer some flexibility on missed payments, although those with longer term arrears have their cover withdrawn.

Lower minimum sums can be insured, minimum home security standards are not required and excess payments are either smaller or not included in the policy at all. Council tenants with rent arrears are, in the majority of cases, likely to be excluded by the local authority, rather than the insurers.

Affordability

Premiums are often more affordable for households living in high risk areas, as intermediate schemes do not differentiate between high and low risk neighbourhoods. While there is a danger that this simply involves one group of low-income households subsidising another, successful schemes concentrate on reducing the entry conditions and providing greater flexibility in payment options for those lower-risk households who may find a cheaper deal elsewhere. In addition, the economies of scale associated with selling insurance policies to sizeable groups of people, rather than individual households, result in cost savings which are passed on as lower premiums.

What makes for a successful intermediate scheme?

To be successful, an intermediate scheme must reach a critical minimum number of tenants insured. The level of take-up was found to be strongly related to how long the scheme had been established. The more successful schemes have a high-profile marketing strategy, where responsibility for the strategy is shared between the insurer and the intermediary.

There is a 'viability' threshold on the premium income raised relative to claims paid out. The more viable schemes raise their income by increasing take-up rather than increasing the cost of premiums and in return can earn commission from the insurer. The design and management of schemes is crucial in securing a balanced insurance pool. Successful schemes have built a reputation for being fair and effective in processing claims - avoiding the problems of the 1980s where claims against local authority insurance were often seen as 'easy money' by tenants who were struggling to make ends meet.

Insurers and brokers believe that schemes are sustainable when intermediaries play an active role in premium collection. Around half of the housing association schemes in the survey operate on an arm's-length basis, where tenants pay directly to the insurer or through the post office (and in these cases transaction costs are added for those who pay in cash instalments). On the other hand, 'insure with rent' schemes, run by local authorities and some housing associations, do not incur transaction costs.

In conclusion

Of the one in five households who are currently uninsured, a significant proportion could be offered affordable and appropriate home contents insurance. The entry of intermediate 'gate keepers' into the insurance market has widened access to home contents insurance for many low-income households who would not otherwise have been able to obtain it. In addition, by making adjustments to current insurance products, mainstream insurance companies could have a stronger presence in this part of the market, serving households not currently covered by intermediary schemes.

Future developments

Around one in seven tenants who have access to insurance are insured through their landlord. There are three ways of extending intermediate schemes to cover a higher proportion of the uninsured. First, there is considerable scope for more local authorities and, especially, housing associations to organise 'insure with rent' options for their tenants. At the very least there should be a responsibility to inform tenants that they are not automatically insured. Second, the level of take-up between schemes could be improved across the board by active marketing strategies. Third, the very poor levels of home security found in the most excluded neighbourhoods will need to be addressed if insurance is to be a viable long-term option. The researchers propose ear-marking a share of the revenues from the Insurance Premium Tax (IPT) for a Neighbourhood Risk Reduction Fund. Targeted carefully, this should help reduce the real cost of insurance.

About the study

The research aimed to improve understanding of the uninsured population, explore the problems low-income households experience in obtaining insurance, and identify potential solutions. Depth interviews were carried out with 29 low-income households without home contents insurance in two areas - Leicester and Newcastle - to determine their reasons for being uninsured. These interviews were used to inform the design of a national household survey.

In addition, ten case studies of insurance companies and brokers were carried out, to determine their perceptions of the needs of low-income households and the ways in which they could be offered more appropriate and affordable cover. Finally, postal surveys of local authorities and housing associations were conducted to determine the nature and extent of this form of insurance provision and the potential for growth.

How to get further information

Further information about the research is available from Claire Whyley and Elaine Kempson at the Personal Finances Research Centre at the University of Bristol (Tel: 0117 928 9000) or James McCormick at the Scottish Council Foundation (Tel: 0131 225 7911).

A full report, Paying for peace of mind: Access to home contents insurance for low-income households by Claire Whyley, James McCormick and Elaine Kempson, is published by the Policy Studies Institute. It is available from Grantham Book Services, Isaac Newton Way, Alma Park Industrial Estate, Grantham, Lincolnshire, NG31 9SD. Tel: 01476 541080. Fax: 01476 541061. (ISBN 0 85374 741 5. Price £14.95 plus £2.50 p&p.)

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