Widening the safety net

Learning the lessons of insurance with-rent schemes

DEMOS

Report

Toynbee Hall
SAFE

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Foreword

Social exclusion is about more than just income and poverty. It is what happens when someone is excluded from essential services or aspects of everyday life that most others take for granted. The abolition of social exclusion – and as part of this, financial exclusion, is of fundamental importance to this Government.

Accordingly, the Government announced our commitment to tackling financial exclusion in 2004, and we have taken significant steps to address this problem, through the Social Exclusion Unit and more recently by establishing the Financial Inclusion Taskforce and the Financial Inclusion Fund, worth £120m.

However, we recognise that there are challenges faced by people experiencing financial exclusion that remain to be tackled. . This report makes an important contribution to the debate by focusing on the subject of access to insurance for socially-excluded groups. This is particularly relevant, as such groups are the least able to recover from losses caused by burglaries and other incidents without the protection of insurance.

I therefore welcome this report, which has been produced by Demos and the Services Against Financial Exclusion Unit at Toynbee Hall, and sponsored by insurers Royal & SunAlliance. The conclusions of the report provide food for thought, and should push this debate up the financial and social inclusion agenda. It is vital that the public, private and voluntary sectors all engage in this process and seek to find innovative and workable solutions to the challenges faced by those excluded from insurance in this country.

Phil Woolas, MP

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About the report

Research for this report was carried out in partnership by SAF,E part Toynbee Hall and Demos. The research and its publication was sponsored by Royal & SunAlliance.

Demos is the think tank for everyday democracy. We believe everyone should be able to make personal choices in their daily lives that contribute to the common good. Our aim is to put this democratic idea into practice by working with organisations in ways that make them more effective and legitimate. We focus on six areas: public services; science and technology; cities and public space; people and communities; arts and culture; and global security.

SAFE (Services Against Financial Exclusion), part of Toynbee Hall, is an innovative project dedicated to providing practical services to increase financial capability and promote financial inclusion. SAFE has four main streams of work which focus on improving financial capability through 'information, education and advice' and access to appropriate products. These areas are financial education, a debt support programme, improved access to financial services (e.g. basic bank accounts), and ‘fif’, the national financial inclusion forum.

CONTACTS

Demos
John Craig
Hannah Green
+44(0) 207 367 6323
john.craig@demos.co.uk

SAFE at Toynbee Hall
Alice Rogers
+44(0) 207 392 2954
alice.safe@toynbeehall.org.uk

Executive summary

Three million households in social housing lack contents insurance – but they are twice as likely to be burgled.

- Lack of access to insurance is a major disadvantage for socially excluded groups, yet the issue has not been given the profile it deserves. For example, while nationally the numbers with contents insurance has continued to rise, the proportion of those in council housing with such protection has declined in the last decade.

- Lack of access to insurance was one of the issues looked at as part of the Government's Access to Financial Services Review in 1999.[1] Although some progress has been made, there is still a serious problem of exclusion from insurance among lower income groups and we are yet to see action on a national level. Three million households in social housing[2] lack contents insurance[3], while they are twice as likely to be burgled as privately owned properties[4].

- Financial inclusion in general has benefited greatly from being a governmental priority. Yet far more focus is required on the specific issue of access to insurance at both a central and local level.

- The insurance industry has also taken initiatives to look at the problem. However, significant cross-industry effort is required to promote the access of insurance to lower income groups.

- With-rent schemes allowing those without bank accounts to make affordable and convenient weekly payments for insurance are an established method of widening access to insurance. They do not represent a magic bullet, but if implemented systematically they can make a substantial difference.

- The expansion of with-rent insurance was a specific goal in the 1999 Access to Financial Services Review. However, the take-up of these schemes is still patchy and urgent action is needed by all parties to address this.

The proportion of households in council housing without insurance protection has worsened in the last decade.

[1]Social Exclusion Unit (1999) Access to Financial Services: Report of PAT 14 (http://www.socialexclusion.gov.uk/downloaddoc.asp?id=127)

[2]UK Housing Review 2004/5, published by the Chartered Institute of Housing and the Council of Mortgage Lenders

[3]Office of National Statistics (2004) Expenditure and Food Survey 2003-2004

[4]Office of National Statistics (2005) British Crime Survey, 2002-2003

About the project

This report is the outcome of a Demos research project funded by R&SA and in partnership with SAFE (Services Against Financial Exclusion), part of Toynbee Hall. Our research consisted of three strands of activity:

- A literature review of existing policy and best practice.
- Focus groups with people experiencing financial exclusion. These were drawn from SAFE, part of Toynbee Hall. The group discussions focused on access to financial products and services, in particular insurance.
- A series of in-depth telephone interviews with local authorities and housing associations that run with-rent insurance schemes. These included representatives from housing, rent and insurance departments from councils and Registered Social Landlords (RSLs).

Across these methods our research focused on three questions:
- Who lacks insurance?
- Why do they lack insurance?
- What can be done to improve the situation?

Glossary of terms

Financial Capability
Financial capability is a term used to describe the necessary skills, knowledge and confidence to make informed financial decisions and manage money effectively.

Financial Exclusion
This can generally be defined as the circumstances in which a person does not have access to appropriate financial products or services which give them the opportunity, ability and confidence to make informed decisions about their financial situation or organise their money effectively.

Financial Inclusion Taskforce
The taskforce was formally launched in February 2005 to oversee a Financial Inclusion Fund of £120m. It will monitor progress on the objectives the Government has set out to tackle financial exclusion, and will make recommendations on what more needs to be done.

Financial Services Authority (FSA)
The FSA are an independent body that regulates the financial services industry in the UK.

With-rent insurance
Insurance with-rent schemes allow people to pay their insurance weekly with their rent. Everyone pays the same premium regardless of where they live. The schemes are usually administered on behalf of tenants by the local authority or housing associations or by a third party.

Policy Action Team 14

Following the Social Exclusion Unit's report on Neighbourhood Renewal, a Policy Action Team (PAT 14) was established to examine the scope for widening access to financial services. The report it published in 1999, Access to Financial Services, highlighted the need for diversity in delivery channels including the development of credit unions; the promotion and extension of local authority Insure with-Rent schemes; and the development and promotion of basic account services by banks, building societies and other providers.

Social Exclusion Unit

In 1997 the Labour Government established the Social Exclusion Unit. The Unit's remit was to improve Government action to reduce social exclusion by producing 'joined up solutions to joined up problems'. The Unit's initial report, 'Bringing Britain Together: a national strategy for neighbourhood renewal', was presented to Parliament in September 1998. Subsequently, 18 Policy Action Teams were established to follow up aspects of the report during 1998 and 1999.

Introduction

While good progress is being made on financial inclusion in the UK, the rising importance but low profile of insurance is in danger of making it the Cinderella financial service.

The financial exclusion spotlight has tended to focus on banking rather than insurance.

There has been much progress in recent years to improve financial inclusion and drive greater awareness of the need to improve financial capability within society. However, while the spotlight has tended to focus on banking and other high profile financial services, there are additional sectors where opportunities exist to innovate and drive reform for the benefit of those consumers who have limited access to financial services. This is an agenda that the Government has supported, but where further progress is much needed.

Insurance is most needed by those who can least afford it. However, people experiencing social exclusion are also least interested in acquiring insurance. To help to resolve this, insurers and others must craft solutions that work with the grain of the habits and skills of socially excluded people.

This report draws together research that aims to contribute practical suggestions in the task of extending access to insurance, particularly focusing on contents insurance, and to generate valuable public debate about this important challenge. The role of intermediaries in with-rent insurance schemes is crucial in ensuring the success of the schemes. While many local authorities and housing associations are working proactively to tackle this challenge, others have not adopted with-rent schemes, therefore the role of central and local Government in pushing this agenda forward is crucial. This report makes a call to action to local intermediaries, insurers and the Government, urging all to invest in extending the coverage of insurance.

In particular,
- We urge private and public local intermediaries, including local authorities and housing associations, to make greater investment, to work together better and to generate clearer messages about with-rent insurance.
- We encourage insurers to engage actively with their local communities, visibly investing and adding value, to build trust and word of mouth support.
- Finally, we call on the Government to make financial inclusion, including access to insurance, a stronger and more consistent priority at all levels of Government.

Financial inclusion is a more complex challenge than simply ensuring that as many people as possible obtain insurance and other financial products. The task is to create an environment in which all citizens are able to manage their money and secure their future in ways that suit them. Financial inclusion therefore has two components:

- access to appropriate financial products and services.
- the opportunity, ability and confidence (and appropriate support and advice) to make informed decisions about financial circumstances.[5]

[5]Paxton, W. and Regan, S. (2003) Beyond Bank Accounts: Full financial inclusion (IPPR)

The evidence suggests that people on low incomes know only too well the hard choices that they face.[6] However, as the Social Exclusion Unit argued, "the decision not to place a higher priority on insurance may rest on doubtful prejudgments, supply-side failures, or both; or a lack of spare money on a regular basis. Exclusion can be a response to pricing, policy conditions and product design factors". While purchasing insurance is a decision for the individual, ensuring financial inclusion is a collective responsibility.

This distinction encapsulates a dilemma of policy-making. A society in which all were insured would be better at mitigating against the effects of poverty. Indeed, those who can least afford to lose possessions often have most to benefit from contents insurance. However, these people may also have most to benefit from a whole range of products and services that may be just out of their reach. As a result, individuals themselves are best placed to weigh up whether they need insurance, but there is a huge collective benefit in helping them to make the right decision and helping people gain access to insurance should they want it.

1. The problem

1.1 How serious is the problem of exclusion from insurance?

The insurance divide

The internet has made insurance easier to buy for most – but the less privileged risk falling behind.

There have been huge changes in the insurance industry in recent years with the emergence of new channels of access, especially the internet. No longer does purchasing insurance involve huge amounts of paperwork; insurance can be bought in a matter of minutes on the telephone, online or in the supermarket. But while this has made insurance easier for most in society, the less privileged without access to these channels risk falling behind. This is particularly concerning as the disadvantaged often have most to lose by not having the security of insurance. Many people have a disposable income of just a few pounds a week. Coping with large expenses such as water damage to furniture or fittings can be extremely difficult. The outcome can be serious financial difficulties and emotional stress. Furthermore, the belongings of those on low incomes are at the greatest risk. For example, those in social housing are twice as likely as owner-occupiers to suffer burglary.[7]

Insurance therefore is an increasingly significant component of social security and has become increasingly ubiquitous. However, while the divide between the insured and the uninsured is starker and more important than ever, many barriers remain to its closure. The challenge is for insurers and others to develop both new models of insurance that help to mitigate against this and to connect insurance better with public and voluntary approaches to welfare, in order that everyone has access to the range of benefits it brings.

[6] Social Exclusion Unit (1999)
[7] Office of National Statistics (2005)

1.2 What are the key barriers to accessing insurance? Poverty, Product design and Perceptions

Barriers to accessing insurance: Poverty, Product design and Perceptions

Poverty

- Only half of people in the lowest income decile possess contents insurance, compared to 78% in the UK as a whole[8].
- 22% of UK households have no home contents insurance[9].
- 45% of households have no life insurance cover[10].
- 3 million households in social and local council housing have no insurance[11].
- Geographically, financial exclusion is concentrated on local authority housing estates, especially those in areas of high deprivation.

Product Design

- Products that require direct debit payment deny access to the unbanked
- Many long term products require a stable income.

Perceptions

- Some people believe that they do not need insurance because they are too young or do not have enough belongings.
- Other think that it is simply not for 'people like them'.
- There are so many messages and adverts individuals are confused and do not know which policy or product they should choose.
- There is a general lack of trust in the industry.

Access to insurance remains a widespread and serious problem for the poorest members of our society. Only half of people in the lowest income decile possess contents insurance, compared to 78% in the UK as a whole. Indeed, 12% of adults in the UK have no bank or building society account[12] and 7% of households lack any financial products at all.[13] The challenge of access to insurance remains a very serious one.

[8]Expenditure and Food Survey, 2004-05

[9]Expenditure and Food Survey, 2004-05

[10]Office of Fair Trading, 1999

[11]UK Housing Review 2004/05, published by the Chartered Institute of Housing and the Council of Mortgage Lenders 2003-2004 Expenditure and Food Survey, 2004-05

[12]Financial Services Authority (2000) In or Out? A literature and research review

[13]Ibid

The average disposable income of people in social housing is less than half that of owner occupiers.

Poverty

Most importantly, this is a direct result of poverty. In the UK today, for example, 9.5 million people cannot afford adequate housing, defined as that which is heated, free from damp, and in a 'decent state of decoration'.[14] In 2002, the average disposable income of those in local authority housing, for example, was just £243 per week, compared to £520 for home owners.[15] For these people, 'essential' purchases are all too easily whittled down to those that are unavoidable, and insurance is often not among them.

Lone parents, unemployed people and those unable to work through long-term sickness or disability all have low levels of engagement with financial services. The longer the head of the household has been out of work the greater the likelihood of the household being at, or on, the margins of financial exclusion.[16] The level of exclusion is, however, at its most extreme for people in receipt of Income Support, 35% of whom have no financial products at all, with a further 55% having either one or two only[17].

Globally, when income is very low, for every additional pound earned very little, if any, of this money is spent on insurance. As people earn more, insurance gradually becomes a higher and higher priority.[17] The research we and others have been able to do suggests that this is equally true for individuals; those on the lowest incomes find it hardest to invest for the long-term.

Crucially for with-rent insurance schemes, of the poorest 10% of households, 51% live in local authority and social rented housing.

[14]Gordon, D., Townsend, P., Levitas, R., Pantazis, C., Payne, S. and Patsios, D. (2000) Poverty and social exclusion in Britain (Joseph Rowntree Foundation)

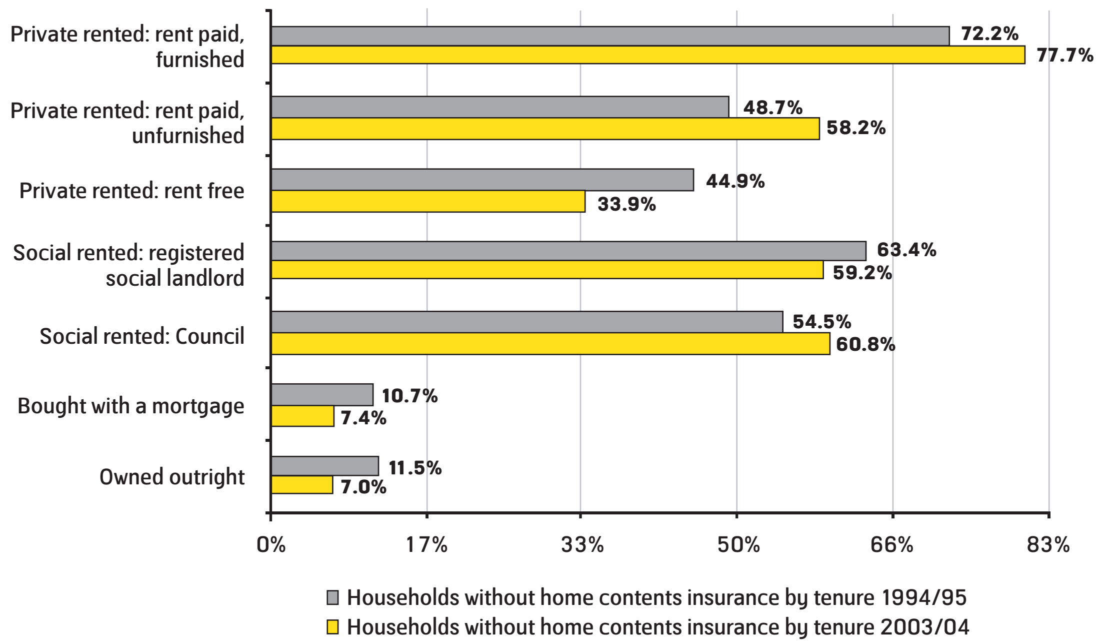
[15]UK Housing Review, 2004-5

[16]Kempson, E. and Whyley, C. (1999) Kept out or Opted out: Understanding and Combating Financial Exclusion (Policy Press: Bristol University)

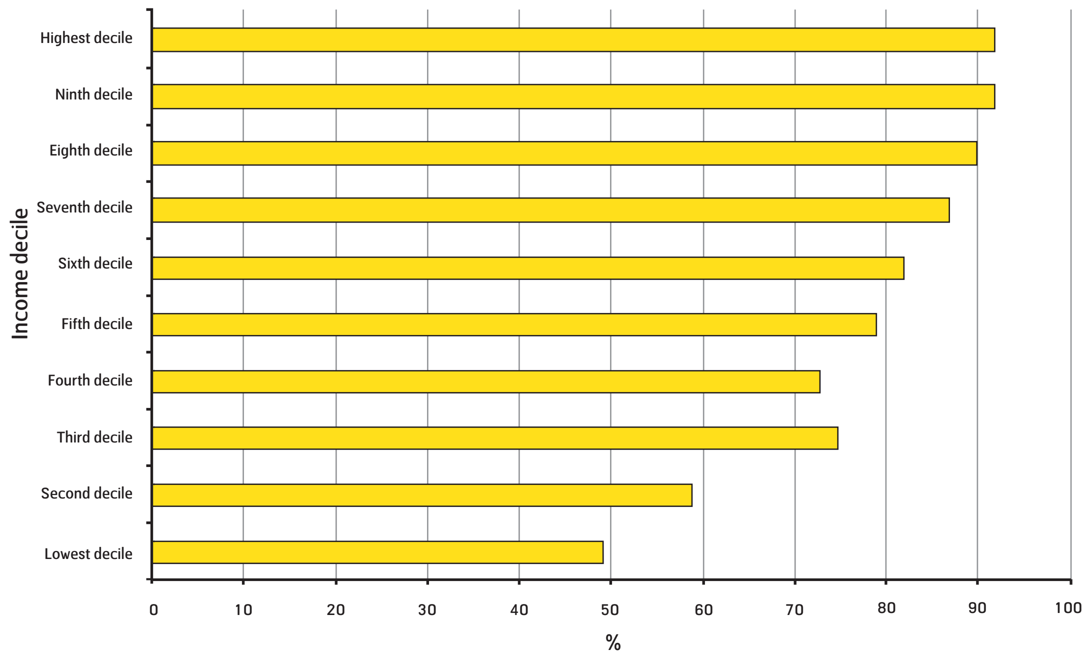
[17]FSA (2000)

[18]Pearson, R. (2002) 'Growth Crisis and Change in the Insurance Industry: a retrospect', in Accounting, Business & Financial History, 12:3, November 2002, pp 487–504

Households without home contents insurance by tenure (%)[19]



Households with home contents insurance by deciles (%)[20]



[19]CEBR (2005)
[20]CEBR (2005)

In the past, high excess and high minimum payments have made it difficult for those on low incomes to find the level of cover they need.

Product Design

The effects of poverty are compounded by limits to the kinds of insurance the market is able to offer. For example,

- Some products require direct debit or standing order payments that deny access to those without bank accounts.
- For people with bank accounts, direct debit payments are not always viable as they create problems for those who need to budget on a weekly basis.
- In the past, high excess and minimum payments have made it difficult for those on low incomes to find the level of cover that they need.
- Most contents insurance products set a minimum amount covered of £20k. Although this leaves many under-insured, in fact it leaves some over-insured, as the average value for contents of a single adult on a state pension is £8.5k[21], for example.

Perceptions

The effects of poverty and product design are mediated through individuals' priorities. On top of the financial constraints to which they are subject, people experiencing social exclusion make a low priority of contents insurance. While very few customers in MORI focus groups had been turned down for insurance, nonetheless, those in lower income groups are likely to self-exclude on the basis of real or perceived barriers[22].

The Financial Services Authority (FSA) defines this as **'self exclusion'**:
People may decide that there is little point applying for a financial product because they believe they would be refused. Sometimes this is a result of having been refused personally in the past, sometimes because they know someone else who has been refused, or because of a belief that 'they don't accept people who live round here'.

The participants in the focus groups and interviews highlighted three main reasons for why people might not purchase insurance: they cannot afford it, they do not think that they need it or they are confused about what policy to take out. Broadly, these individuals can be divided into four groups; the constrained, the carefree, the confused and the incredulous.

[21]Home Contents Value Index, 2004, CEBR report for MORE TH>N

[22]MORI (2005) Low-Income Consumers' Understanding, Perceptions and Experience of Insurance. Report of market research conducted by MORI for the Association of British Insurers and National Consumer Council

The constrained

The largest group of uninsured people are those who believe that they simply cannot afford it. In the words of one focus group participant, people in this position learn to develop 'short arms and deep pockets', and avoid the kind of expenditure insurance necessarily involves.

For example, in one survey, 49% of those who had no contents insurance said they would like it but could not afford it[23]. 16% thought contents insurance poor value for money[24]. In our own focus groups with people experiencing financial exclusion, while they often characterised other people's lack of insurance in terms of distrust or confusion, their own they put down simply to being unable to afford it.

The carefree

A second, smaller group might be characterised as the carefree. They are those that believe insurance is only for those with something to worry about – a large number of possessions, old age or misfortune. These people focused not on 'counting the pennies' but on living the good life, with which they made little connection with insurance. In our focus groups, many people characterised those people without insurance in these kinds of terms:

- As 'carefree, someone who is content, thinks nothing's going to happen'
- For example, a 'young couple... don't have to think about it yet'
- Contents insurance 'would only be essential if you had a £1m house'

The confused

The nervousness and confusion that many people on low incomes feel about insurance can be a crucially important factor. For example, 10% of those who were uninsured for home contents have said they had never thought about taking it out[25]. Participants in our focus groups emphasised that complex policy documents contribute to this overall lack of clarity and feeling of uncertainty. Equally, the barrage of adverts for financial products on television and in the press seemed to be creating a heightened awareness of the dangers of being 'ripped off'.

The nervousness and confusion that many people on low incomes feel about insurance can be a crucially important factor.

For participants in our focus groups, this anxiety combined with their financial inexperience to focus their attention on what they saw as the potential for 'hidden meanings' in insurance advertising. For example, we showed participants two advertisements for contents insurance. The first was for the with-rent insurance scheme run by a leading insurer, which includes clear text, an attractive picture and details and information about features of the scheme that the evidence shows makes insurance more feasible for socially excluded people. The second advertisement was a mock-up, composed by aggregating particularly technical phrases from other contents insurance advertisements. To our surprise, almost as many people responded positively to the second advertisement as to the first. In the absence of a context in which to interpret the adverts, many participants focused on the possibility of there being 'hidden meanings' to the adverts, making them particularly suspicious of a message that was in fact tailor-made to meet their needs:

- 'it's hiding the small print'
- 'it's aimed at people with no money, it may be a trick'
- 'the picture is trying to con us'

[23]Whyley et al (1998)
[24]Ibid
[25]MORI (2000)

This example suggests that people with poor financial capability can struggle to decode financial information, no matter how simple it is – and that good adverts alone are never enough. People need the confidence and context to make information real and meaningful for them. As a result, by providing the structures through which people can connect budgeting and budgetary decisions to the routines of their daily lives and by connecting phenomena like insurance to things people personally care about, work on financial capability can be vital in expanding access to insurance.

The incredulous

Finally, our focus group research confirmed that people experiencing social exclusion can be distrustful of insurers and perhaps more damagingly of insurance itself. Insurers were seen as 'cocky', 'pushy' and 'target-driven'. The image of insurers was one of 'corporate suits' and 'plush homes' – of people a world away from participants' own lives.

Increased confidence in insurance is key.

Perhaps more damagingly, focus group participants were distrustful of insurance as a product. One seemed to sum up this sense of distrust by saying, "you think you're insured and then there's always a get-out clause". This idea of a 'get-out clause' seemed to undermine participants' sense that insurance was value for money. They were haunted by the 'horror stories' of friends and by the idea of finding "nasty small print somewhere down the line". As one participant said himself, "you need a belief in insurance" and this is precisely what many lacked.

1.3 What action has been taken in the last six years to tackle access to insurance?

Over the past six years Government policy has tackled access to financial services by obliging the financial services industry to respond by providing simplified products. These products and policies can be broken down into three broad groups: those that encourage access for everyone; those that are particularly focused on supporting people experiencing social exclusion and those that have been put in place to enable local organisations to tackle financial exclusion themselves.

Access for everyone

The introduction of Individual Savings Accounts (ISAs), Stakeholder pensions and Child Trust Funds are aimed at helping 'the man in the street' to save more, plan for the future and receive assistance.

The 1999 Access to Financial Services report highlighted the need to extend local authority insurance with-rent schemes.

Access for socially excluded people

Basic Bank Accounts and the associated Post Office card account have been introduced specifically to support benefit recipients. They have largely been paid for by the financial services industry. For example, the industry paid £180 million towards the Basic Bank Account, administered through the Post Office[26].

Support for local organisations

In 1999 the Social Exclusion Unit published the work of Policy Action Team 14 on Access to Financial Services. The report highlighted the need for diversity in delivery channels for insurance. This included the development of credit unions; the development and promotion of basic account services by banks, building societies and other providers, and the promotion and extension of local authority Insure with-Rent schemes.

[26] Clark, A., Forter, A. and Reynolds, F. (2005) Banking the Unbanked: A snapshot (Toynbee Hall)

In the six years since these recommendations were made, progress on access to insurance has been pursued in three main ways, through the housing framework, work on financial capability and with new insurance products.

The housing framework

- As housing gradually moves out of local authority hands, inspection of social landlords is shared between the Office of the Deputy Prime Minister (ODPM), who inspect local authorities, and the Housing Corporation, who inspect Arms-Length Management Organisations (ALMOs) and Registered Social Landlords. In both cases, inspection increasingly emphasises the services landlords provide to tenants, and has helped to encourage landlords to take greater responsibility for addressing tenants' access to insurance.

- With the transfer of housing stock to ALMOs, many new organisations are seeking to demonstrate the improvements in service. As a result, the point of transfer has seemed to trigger new interest in work to help with access to insurance.

- Publications such as 'Insurance for All'[27] have to an extent helped to raise the profile of insurance within the housing sector, sparking some local innovation in the ways in which access to insurance is addressed. For example, Housing Consortiums have begun to play an important role in encouraging take-up and aggregating demand for insurance products.

The Northern Housing Consortium has over 170 members in the north of England representing local councils, housing associations and ALMOs. The Consortium has prioritised access to insurance and has been at the forefront of offering umbrella schemes that generate the critical mass that makes bespoke insurance schemes affordable and convenient to administer. In 1998 the Consortium established a scheme for its members now known as Simple (Simple Insurance Making Peoples' Lives Easier). This is an R&SA scheme via the broker Marsh. The scheme is considerably cheaper than associations setting up their own individual schemes. The Consortium actively promotes the scheme to members. It also offers extensive marketing support including regularly attending tenants' forums to talk about the product. Over 50 of its members have now signed up to the scheme which has 24,500 customers.

The role of financial capability

Financial capability is about having the skills, knowledge and confidence to make informed financial decisions and manage money effectively[28].

Financial capability: what does this mean in practice?

Skills: e.g. to have the skills to use banking facilities effectively by choosing direct debit payments because they are cheaper.

Knowledge: knowing how to shop around for the most appropriate services for your circumstances.

Confidence: having confidence in handling your finances and making effective money decisions

[27] The Housing Corporation, 2001

[28] National Association of Citizens Advice Bureaux 2003

Recent years have seen a growing momentum to work to bolster financial capability at a national and local level. In February 2005 the Financial Inclusion Taskforce was formally launched to monitor progress on the objectives the Government has set out to tackle financial exclusion and develop financial capability. The Taskforce will make recommendations on what more needs to be done.

This life skill can be substantially improved in two ways:

- Firstly by ensuring that people have basic information about financial products and how to access them.
- Secondly, by supporting people with little disposable income to develop different habits of thought in managing their money.

When meeting day-to-day expenditure is a challenge, people develop skills of short-term rather than long-term money management. In addition, it can be harder for those with nothing to 'get started' in developing habits of saving and investing. These habits of thought can prevent people from applying the basic skills they have to the task of securing their long-term well-being.

The role of new products

Following the Access to Financial Services report there have been pilots, research, and a best practice guide published by the Association of British Insurers and the Housing Corporation, though central Government has not led concerted action on a national level[29].

Nevertheless, the industry has begun to move in the right direction with insurance with-rent schemes. These are a proven but under-used method of tackling social exclusion that could form part of a solution to access to insurance.

2. A solution for expanding contents insurance

2.1 With-rent schemes

With-rent insurance is a proven but under-used method of tackling social exclusion.

The Social Exclusion Unit's Policy Action Team 14 proposed both the extension of with-rent insurance schemes and the creation of basic financial services and products catering specifically to the needs of those currently excluded from them.

The development of insurance schemes that allow people to pay their insurance with their rent is grounded in evidence about barriers to insurance. Many of these schemes have no excess payments and security requirements, and minimal conditions yet affordable premiums, which all help to improve access to insurance. For example, R&SA run 172 such schemes in the UK.

The schemes are certainly well-targeted. Three million households living in social housing have no contents insurance and of the poorest 10% of households in the UK by income, 51% live in local authority and housing association properties[30]. With-rent insurance schemes mean that intermediaries take tenants' rent out of payments first, so that any shortfall falls first on their insurance. However, in the short-term, the vast majority of policies, within reason and at the insurer's discretion, allow people to make up this deficit should they want to make a claim.

[29]Maxwell, D., Fast Forward (2005)

[30]UK Housing Review 2004/5

Basic Facts: With-rent insurance schemes

With-rent insurance schemes allow people to pay their insurance on a weekly basis with their rent, with a typical premium of one or two pounds a week. Our research indicates that this is crucial to their success as they fit in with short term and cash dominated budget patterns. As one council employee said, "It's low cost peace of mind."

There is often no or minimal excess charge on the insurance policy which makes it particularly attractive to people without access to ready finance. Moreover, it is available even if you are unemployed or subject to a County Court Judgement and policy holders are not penalised for dipping in and out of cover as their circumstances allow.

Insurance with-rent schemes work through intermediaries. They are run by about half of all local authorities and a growing number of housing associations.

A typical local authority scheme involves the local authority acting as an intermediary for an insurance company, arranging policies and collecting the premium payments with rents.

Some housing associations act in the same way, although many do not actually collect the premiums so do little to resolve the problems of access to insurance.

The Association of British Insurers has noted that take-up through these schemes has been disappointing, although they continue to grow both in number and in size. For example R&SA has 172 schemes with approximately 250,000 policy holders.

Priorities are to keep costs down and help tenants access the scheme.

According to our research, insurance with-rent schemes are more popular than other forms of insurance for three main reasons:

- They work through trusted intermediaries rather than by a direct relationship between the insurance company and the client.
- This intermediary offers advice and support for the client.
- The popularity of schemes travels by word of mouth, a form of recommendation that people trust.

The work of trusted intermediaries

We found that at their best, local councils and housing associations are doing excellent work to bridge the gap between insurers and uninsured people. Many intermediaries are clear about the benefits the schemes bring in greater security for their tenants. For example, one major northern housing association has now decided to forego any commission on with-rent insurance products, arguing that their priorities are to keep the costs of insurance down and to help their tenants access the scheme. Others increasingly model a relaxed, straight-talking approach - "as long as they are not convicted felons or have made loads of claims, they will be accepted", said one interviewee.

Advice and support

As Lord Turner, Chairman of the Pensions Commission argues,"most people do not make rational decisions about long-term savings without encouragement and advice"[31]. This also rings true for insurance. As a result, the face-to-face contact intermediaries provide is invaluable. Indeed, if it is done right, contents insurance itself can help people both with budgeting and with the development of budgeting skills. In this sense, insurance can be a form of 'saving for a rainy day', spreading the costs that can otherwise represent a damaging shock to household finances[32]. In particular, those administering with-rent schemes have found that the opportunity to pay weekly is particularly appreciated by clients, because that faster rhythm is much closer to the pace of their other routines of saving and spending.

> **"The fact that the scheme allows people to pay for their insurance weekly with their rent is crucial; the insurance company is meeting the needs of the people who need the most support."** (Local Council Employee)

Word-of-mouth

Word-of-mouth recommendation has been key to the most successful schemes.

In persuading tenants to sign up, word-of-mouth has been a key factor in the work of the most successful schemes. The majority of intermediaries reported that despite efforts to advertise the schemes in various ways, advertising made only a marginal and short-term difference to the numbers coming forward. The key, they argued, was creating contented customers and hoping that they would spread the word. As a result, when schemes reach a critical mass, suspicion and confusion about insurance can recede.

This is a familiar challenge. For example, governments increasingly face the challenge at elections of the phenomenon of 'lucky pessimists' – those who believe that while their own experiences of public services have been good, that in general public services are poor. Insurance seems to face a similar challenge with clients on low incomes. With-rent insurance can help to create the local 'tipping points' that convince disadvantaged communities that insurance is really feasible for them.

The insurance industry cannot rely on advertising for take-up of its products. It is clear that it relies far more on positive word of mouth from satisfied customers that the product is good and can be trusted.

Insurance with-rent schemes are an innovative and 'tried and tested' method of widening access to insurance. They are not the total solution but if generally implemented would be a major step forward. There are two ways in which the scheme could be expanded:

- Improved take-up by housing associations, local councils and landlords
- Increased customer uptake within the schemes.

[31] The First Report of the Pensions Commission (http://www.pensionscommission.org.uk/publications/2004/annrep/fullreport.pdf)

[32] Social Exclusion Unit (1999)

2.2 How to increase uptake of with-rent insurance schemes

- Reducing risk: emphasising rewards
- Training and support
- Priorities and payoff

As housing stock continues to pass from local authorities it's becoming increasingly difficult to run insurance with-rent schemes.

Reducing risk: emphasising rewards

Given the constraints under which they work and their own institutional systems and cultures, local authorities in particular can find it difficult to invest for the future and to take on risk in pursuit of public value. Creating successful with-rent insurance schemes inevitably involves both investment and risk on their part, and the most successful schemes have been able to manage this in building up services over a number of years. This is a challenge to other intermediaries to invest both their resources and their reputations in matching this success.

"We recognise that this product not only provides an important service to our residents but addresses an area of social exclusion that previously we had not been fully aware of. Once the details of the product were explained to us it became clear that existing products on the market were of limited use to our residents. The introduction of this service to our residents has been straightforward and has been warmly welcomed by our tenant representatives and staff alike."
Sean Brickley, Warden Housing Association, south of England (member of Northern Housing Consortium)

"We are pleased to be able to offer this scheme to all our tenants, many of whom face financial exclusion and live on low incomes. The scheme provides affordable insurance that is provided and managed by a reputable organisation. Tenants (the first time for some) have peace of mind that most of us take for granted."
Angela Lockwood, Endeavour Housing Association, north-east of England (member of Northern Housing Consortium)

However, as housing stock continues to pass from local authorities, this may be becoming more rather than less difficult. Local Authorities are increasingly transferring their stock to the Registered Social Landlord (RSL) sector with a Special Report by the Housing Association indicating that it is set to pass the million mark imminently with 822,000 houses transferred so far in England[33]. As Local Authority stock levels are depleting, it is no longer justifiable for them to introduce and run insure with-rent schemes. To create the critical mass of tenants on which cost-effective schemes will rely, intermediaries may increasingly need to join forces.

> **"The borough is selling many properties.... We're working on a consortium of local authorities to offer the scheme to make it viable."** (Housing Association Employee)

Training and support

Councils' knowledge of insurance and the necessary administration, IT infrastructure and collection processes are often limited. When combined with cost of entry into the market, the risks can seem to outweigh the benefits. This issue could be addressed through training for local authority and housing association employees so that they feel confident and comfortable initiating and running new schemes.

[33]Housing Association, Transfers 2003-04, Special Report

It can take up to two years for councils to set up a scheme.

Priorities and payoff

Over the past five years Local Authorities and Housing Associations have been inundated with new policies and processes. As one employee put it, "They've got too much on their plates." On top of this, Councils are controlled by regulatory bodies which inevitably slows down their decision-making progress. According to R&SA, the regulatory and decision-making processes required to set up a scheme mean that it can take up to two years for councils to set up a scheme. The resulting time pressure means that those schemes that are not forcibly prioritised by central Government get shelved. In order to ensure the continued expansion of Insurance with-rent schemes, central Government needs to make it a priority and offer centralised support and advice.

Increasing take up of insurance with-rent schemes

Reducing Risk
Intermediaries may increasingly need to join forces to off set the financial risk of investment in a new scheme.

Training and support
Intermediaries should be offered support and training to enable them to invest confidently in new schemes.

Priorities and payoff
Central Government needs to help local authorities to prioritise improving access to insurance in their area.

2.3 How to increase customer uptake within schemes

One local authority that we spoke to had over 30,000 tenants, but despite advertising and reducing payments for over-60s, only 10% had taken up the scheme. What measures can be put in place to increase customer take-up?

> "The general decline in trust seen in financial markets generally seems particularly acute in the context marketing of messages and financial advice... This presents as much as a problem to Government in relation to public education campaigns, as it does to the private sector in terms of their marketing[34]."

There is a range of ways in which the effectiveness and popularity of with-rent insurance schemes might be increased. These are best described under three priorities for the future:

- Trust
- Working better together
- Clearer messages

[33]Henley Centre report for FSA

Trust

In contrast, intermediaries administering with-rent insurance schemes find that the addition of their name, particularly where the intermediary is a local council, helps to build a sense of trust, both in the product and those who offer it. The trust that intermediaries enjoy is an important factor in the success of schemes. It needs to be cultivated and extended throughout the industry.

The key to building trust in schemes is to involve tenants actively in their design.

Increasingly insurers are being more imaginative in their marketing to gain trust and word of mouth approval rather than relying on advertising. For example, **Crawley Borough Council** set up a competition for their most vulnerable housing and hostel tenants to do a home makeover. The insurer contributed towards the cost of the makeover.

Working better together

Many people experiencing social exclusion have strong relationships with their immediate family and communities, perhaps more than other consumers. As a result they can easily feel that products are only 'right for them' if they are 'right for them and their neighbour'. With-rent schemes might grow in popularity if they can find ways to connect with more traditional habits of community self-help. Specifically, insurers, intermediaries and others should work through their advertising to make visible the local popularity and reliability of with-rent insurance schemes in local areas, to build a shared sense of confidence. In addition, re-investment of a fraction of profits or commission in highly visible local security improvements would connect the idea of protecting one's own assets with investing in the local area.

The key to building trust in schemes is to involve tenants actively in their design. **The Northern Housing Consortium** has been active in this. For example feedback from their members and from tenants' forums highlighted the problem of bogus callers. Many of their more vulnerable customers, often without bank accounts, kept small amounts of cash at home. This was easy prey for bogus tradesmen who tricked them into gaining entry into their homes. Normal insurance policies do not cover this type of theft but as a result of consultation with Marsh and R&SA the wording in the policies was amended to include bogus caller cover.

To make the benefits real for people, with-rent schemes should work to provide reassurance as well as insurance. This would help people to see insurance not simply as good financial sense but as part of a good life. This could be done through the kinds of services schemes offer or through the networks they help to create and sustain. For example, some of the best with-rent insurance schemes are providing services that mend broken windows or which help to protect against bogus callers. These services help to make the benefits of insurance real to those with low financial literacy and experience.

In **Rochdale** a housing estate was recording a large number of claims from theft by breaking and entering. When the insurer and broker assessed the site it became clear that covered walkways between buildings provided well concealed getaway routes for burglars. The walkways were removed and claims reduced by 40%. This ongoing communication between the insurer, the broker, the local authority and the insured ensures that the insurance provided is tailored to the circumstances of the policy holders in that area and the social services that provide them.

Equally, some schemes have sought to build up networks that help to reassure people. The best schemes have established networks that help with fast, low-cost replacements and support for those who have suffered losses.

Finally, the best with-rent insurance schemes are the ones where there is continual and effective communication between the insurer, the broker, the local authority and the insured. This ensures that the insurance provided is tailored to the circumstances of the policy holders in that area, and the social services that provide them.

Clearer messages

The challenge is to make insurance aspirational but not exclusive

Publicity about contents insurance must generate a clear public picture of the division of responsibility for property. Councils and others need to be able to make clear that, while landlords are responsible for buildings, contents insurance is a tenant's responsibility.

Today, many councils are investing in front-of-house staff and information systems. As they do so, with-rent insurance is just the kind of offer that ought to become better advertised, supported and administered.

The challenge for advertisers is to make insurance seem aspirational but not exclusive. Public campaigns should shift their focus from the dangers of being uninsured, to which people are unresponsive, to the value for money of tailored insurance products. In part, insurers might do this by challenging concerns about 'get-out clauses' and small print.

A clearer message includes developing an accurate picture of insurance including when it is inappropriate. This would help to increase the trust that people have in such schemes.

Increasing customer uptake within schemes

Trust

- The trust that intermediaries enjoy is an important factor in the success of schemes. This trust needs to be cultivated and extended throughout the industry.

Working better together

- Insurers and intermediaries need to build a sense of shared confidence in the scheme by visibly investing in the local area.
- There needs to be a focus on communication and feedback between all constituencies so that the scheme reflects local need.

Clear messages

- Campaigns need to emphasise the benefits of being insured rather than the dangers of being uninsured.
- Insurers need to challenge concerns about trust.

Recommendations for public policy and financial capability

Recommendations for Insurers

The research indicates that the industry needs to work to develop confidence and trust within communities that feel excluded from insurance, shift the perceptions on institutions and the public about the place of insurance and to do all it can on the financial barriers to insurance.

Enable new and existing intermediaries

Local intermediaries build trust and create structures of support and advice for clients that would be extremely costly for insurers to achieve alone. However, as the rented housing market fragments, it is less clear who these intermediaries will be. The industry should challenge itself to make it as simple as possible for intermediaries to 'plug in' to providing contents insurance. They might seek both to provide additional support to existing intermediaries and to think about how they might help institutions such as extended schools and community organisations to play a role in helping people to access insurance. There might also be a networking role for insurers with umbrella bodies such as housing consortia to aggregate demand.

Insurance should help smaller housing associations club together to offer group schemes.

Invest in high-risk areas

The re-investment of a small proportion of profits from insurance is a powerful idea – it can build confidence about insurance amongst the financially excluded, help to reduce the long-term costs of insurance and make a contribution to the creation of resilient communities. This is a challenging agenda for insurers, who work in a highly commercially competitive environment. However, this should be a key priority in insurers' corporate responsibility strategies and insurers should work together to establish norms within the industry of levels of commitment to re-investment in at-risk areas.

Focus on young families

The research also suggests that young people, especially young families, may be a particularly appropriate target for expanding access to insurance because this is the group for whom self-exclusion from employment seems to play the most significant role. Insurers should work to combat the view that insurance does not represent value for money for those on low incomes and to develop habits of insurance in young people.

Smarter conversations

This report makes a range of practical suggestions about how insurers communicate with the public. In particular, there is more that insurers could do to understand how to communicate with socially excluded people, including harnessing the power of word-of-mouth. How can insurers market in ways that trigger local conversations about their product? How might they empower local people to promote the idea that insurance is for all?

Reassurance as well as insurance

Innovation by local providers has focused on complementing insurance with reassurance – from the rapid replacement of broken windows to helping to protect against bogus callers. This helps to make the benefits of insurance tangible for those on low incomes – it associates insurance with the good life rather than with balance sheets. Support in bringing this innovative work to scale may help to change negative perceptions of insurance.

Beyond with-rent schemes

For many people, cheap and accessible insurance is only available if the premium is paid with their rent. While this is a viable option for those who are renting, it leaves too many people who have leasehold agreements or who own their property without access to insurance. There are already some third parties acting as intermediaries who are able to offer accessible insurance. For example, the Wessex Group run an accessible insurance scheme that is more flexible in its payment options than with-rent schemes, and is open to leaseholders and those who have purchased their property through right-to-buy. Clients can pay annually, monthly, fortnightly or weekly; those who choose to pay monthly or weekly can pay using a payment card that operates through the Post Office. The flexibility of the scheme means that the service is open to many more people.

Recommendations for local authorities and social landlords

Low cost schemes outside rent open the service to many more people.

The principle of insurance for all

Too often, institutions responsible for social housing implicitly share the view that insurance is not for all. Local authorities and registered social landlords can learn from the work of the most innovative amongst them how great a difference they can make by focusing on access to insurance and how little expenditure and effort this can involve on their part. There is a clear challenge for all local authorities to invest for the long-term in providing access for their tenants to with-rent insurance schemes. However, it is clear that for some institutions, this kind of proactive approach is difficult in the context of transferring ownership of housing stock. Others might seek to work with networks and consortia able to make this investment on their behalf.

Focus on housing transfer

Local authorities should connect opportunities for providing with-rent insurance to the process of transferring housing stock to Arms Length Management Organisations. Many such ALMOs are keen to demonstrate their ability to provide new services for tenants, and local authorities and others should encourage ALMOs to take up the challenge of providing access to insurance.

Connect to support networks

Local intermediaries can also add real value to the product they help their tenants to access. Good practice in this field ranges from connecting claimants to support networks and sources of value replacement goods to providing reassurance through help with security.

Recommendations for Central Government

Insurance at the heart of financial inclusion

At present, the signs from government on financial inclusion are positive, and much has been achieved. However, one risk is that Government's focus on their 'A,B,C' (advice, banking and credit) as a core element of financial inclusion may become too tight. Insurance is a vital element of financial inclusion, and growing in significance all the time, and government should send a clear signal to this effect. The Financial Inclusion Taskforce should make insurance a key priority for its research and development work.

Measure what matters

This report has highlighted the role of intermediaries in the success of with-rent and other similar schemes. However, not all local authorities or RSLs are offering these schemes. Work to help tenants to access insurance may need to be embedded more clearly in the inspection frameworks of both the ODPM and the Housing Corporation.

Work to help tenants access insurance could be embedded in housing inspection frameworks.

Support intermediaries

At the same time as encouraging local authorities to take responsibility for tackling access to insurance, the ODPM needs to think about supporting other intermediaries that could provide access to insurance. In particular, as stocks of social housing move into the private sector, the ODPM might provide seed funding to help consortia to pool demands for insurance from these smaller organisations. Equally, the Financial Inclusion Taskforce should consider whether broader financial support for such intermediaries from central Government would be appropriate.

Lever private investment

Social polarisation and rising insurance claims mean that areas of insurance market failure are becoming more common. As we have argued, in part, the insurance industry has a responsibility to respond. Equally, government needs to take a judgement about its ability to do more. One possibility is to work with insurance companies on the re-investment of a small proportion of profits from insurance schemes. In some areas, this would be money already allocated by government, but spending it through this process might help to lever in greater private finance, to build community resilience and to build a sense within disadvantaged communities that they can help themselves.

About Royal & SunAlliance

R&SA has been at the forefront of providing insurance to disadvantaged groups for over 15 years. R&SA is a leading provider of insurance to social housing schemes in the UK, operating 172 schemes providing approximately 250,000 customers with affordable insurance payable weekly. R&SA is one of the world's leading multinational quoted insurance groups, writing business in 130 countries and with major operations in the UK, Scandinavia, Canada, Ireland, the Middle East and Latin America. Focusing on general insurance, it has 27,000 staff and, in 2004, its net written premiums were £5.2bn. In the UK R&SA is the second largest commercial lines insurer and one of the top three personal and motor insurers. With an almost 300 year heritage Royal & SunAlliance is the oldest insurance company in the world still trading under its original name.

Royal & SunAlliance, External Communications Tel: +44 (0) 20 7111 7000 email: rsa.media@gcc.royalsun.com

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