ACCESS FOR ALL: EXTENDING THE REACH OF INSURANCE PROTECTION

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Insurance companies protect millions of people and families against potentially devastating risks. Poorer people can often be more vulnerable, so insurance is crucial for them. Our industry aims to extend the reach of insurance protection to more people on lower incomes.

Hazards like flood, fire and burglary cause great damage and loss, and the consequences of not being insured can be overwhelming. People in poorer households can be far more vulnerable to these risks, but are often least able to recover financially. They are also least able to deal financially with accidents or illnesses.

When people have a poor understanding of how to manage risk, they become vulnerable in a crisis. We want to help change that.

To achieve this the ABI is launching a financial inclusion action plan: a programme of promotional and educational work with the Government, charities and other organisations with an interest in financial inclusion. Our aim is to help more people insure themselves properly and to do so more easily and with greater confidence.
What the evidence shows

The benefits of being covered against an event like a fire can far outweigh the cost of insurance premiums. But our research shows that many low-income households do not buy insurance.

- 35 per cent of people in very low-income households (less than £10,000 a year) have no insurance of any kind, compared to only five per cent of households with an average income (£15,000-£30,000).
- Under half of low income households hold home contents insurance compared to over 80 per cent of those with average incomes, and only a quarter hold life insurance, compared to half of those on average incomes.
- Of those with a low income and no insurance, a third borrow funds to replace stolen or damaged household items, increasing their indebtedness.

Lack of money is the major factor explaining the low take-up of insurance by those on low incomes. But another key issue is a lack of understanding of the benefits and importance of insurance. We aim to raise awareness and improve access to cover.
The importance of insurance for people on low incomes

In times of crisis, insurance is crucial in helping people to get back on their feet. Fire, flood and burglary can be particularly devastating:

- There were around 733,000 domestic burglaries in England and Wales last year (British Crime Survey, Home Office, 2006). Insurers paid out nearly £1m every day to burglary victims.
- The 2007 summer floods alone caused enormous damage, which we estimate affected 120,000 homes and businesses. Insurers will be paying out over £3 billion to flood victims.
- In 2005 (the latest recorded year) there were 57,800 domestic fires in the UK, 10,400 of which were caused deliberately (UK Fire Statistics, Department for Communities and Local Government, March 2007). Insurers pay out around £350 million every year in claims for domestic fires.

Unfortunately, the evidence shows that poorer people face much higher than average risks:

- **Burglary**: Last year, households with an income of less than £5,000 were 71 per cent more likely to have been burgled at least once compared with households with incomes of £30,000 or more. Social renters were 133 per cent more likely to experience a burglary than owner occupiers (Crime in England & Wales 2005/6, July 2006).
- **Arson**: Arson rates are 30 times higher in our most deprived communities than in our most affluent (Tackling Arson, Home Office, April 2006).
- **Flooding**: People in the most deprived 10 per cent of the population are eight times more likely to be living in tidal floodplains than people in the least deprived 10 per cent (Addressing Environmental Inequalities, Environment Agency, October 2004).

This increased level of risk experienced by people in lower-income households shows why insurance is especially valuable to them. The ABI commissioned research to investigate their insurance needs and their actual take-up of insurance services.
Our research on low income households

The ABI commissioned independent research experts, ORC International, who conducted over 1,000 face-to-face interviews with people from three household income groups:

- Very low income – those with household income below £10,000 a year;
- Low income – from £10,000 to £14,999 a year; and
- Average income – from £15,000 to £30,000 a year.

How important do people believe insurance is?

Our survey found that most people recognise the importance of insurance, including home, motor and life insurance. The perception that insurance was important was lower in the lower income groups, but on the whole it was still high. For example, around three quarters of people on very low incomes viewed home insurance as important:

Percentage of people who believe insurance is quite or very important, by income group

Source: ABI ORC survey. Sample = 1047.
What is the take-up of insurance?

Home contents, life and motor insurances are the most common types of insurance, but take-up is lower among lower-income households. For example, under half of households in the lowest income group held home contents insurance compared to over 80 per cent of those with average incomes:

Holdings of key insurances by income group

[Table and chart showing insurance holdings by income group]

Source: ABI ORC survey. Sample = 1047.

There are many more uninsured people in the lower income groups:

- 35 per cent of people with very low incomes had no insurance at all
- 17 per cent in the low-income group had no insurance
- 5 per cent in the average income group had no insurance.

Why do people not have insurance?

Tight budgets are, unsurprisingly, cited as the main reason for not holding insurance by low-income households. But apathy and a perceived lack of need were also major reasons.

The table below shows the reasons people gave for not taking out home contents insurance.

Reasons for not holding home contents insurance, by income group

[Table and chart showing reasons for not holding home contents insurance by income group]

Note: Figures do not sum to 100% because of “not sure” and “other” answers.
What the insurance industry is doing

The ABI’s financial inclusion action plan

Raising awareness

• We are working in partnership with the Government, businesses, and other interest groups to promote simple advice on financial issues and products to all kinds of people – from school children to pensioners.

• We run regular campaigns to raise public awareness of better risk management, involving a wide range of issues – from promoting better road safety to highlighting the importance of saving.

• We produce consumer fact sheets on all kinds of insurance products.

Better financial education

• We contribute towards a national education charity, the Personal Finance Education Group, which works with schools to develop better financial capability from an early age.

• Many insurers fund research and initiatives by bodies such as Citizens Advice, which aim to improve financial capability and access to basic financial advice.

Improving access

• We are working hard to help those people who sometimes find difficulty obtaining the right insurance. We run an ‘Older People’s Task Force’ involving insurers, brokers and charities to find industry-led solutions to improve access to travel and motor insurance for older people.

• We run a working group that brings charities together with insurers to help cancer sufferers and survivors access appropriate travel insurance.

• We produce customer information targeted at specific customer groups to give simple advice on managing risk and finding insurance that meets their needs.

Promoting affordable insurance

• In early 2008, we will start a campaign of practical activity to promote greater take-up of insurance by people on lower incomes. The lessons we learn will be shared throughout the insurance industry.

• We will work with housing associations and local authorities to promote affordable schemes that allow tenants to pay for insurance with their rent.

• We will also explore ways of making insurance more easily obtainable by people in poorer households, such as working through credit unions, or developing easier ways for people on irregular incomes to pay for cover.

We are always working to improve people’s understanding of how insurance can help them manage risk and protect them financially. But our analysis shows we can do more to raise awareness of the benefits of insurance among people on lower incomes, and to make our products more accessible.
What is the Government’s role?

Insurance helps people to manage potentially ruinous financial outlay following a crisis, but prevention is always better than cure. The Government has said it will do more to help prevent hazards like flooding and crime happening in the first place, and more action is now needed. This would especially help people on low incomes.

Crime prevention

• We have called on the Government to include minimum security standards in building regulations to help prevent crime – not just for new homes, but in the refurbishment of existing housing. This is especially important in deprived communities where property-related crime is higher.

Flood prevention

• The Government has said it will increase spending on flood defences by £800 million from 2010-11. But the money needs to be put in place earlier. And the Government needs to agree on a more long-term strategy to manage flood risk effectively.

Fire prevention

• We work in partnership with the Government to promote fire safety through the Arson Control Forum (ACF). We are disappointed that the Government is withdrawing its support. The Government needs to renew its commitment to fire safety.

Better road safety

• The Government has a key role to play in improving road safety. It is reviewing the way people learn and maintain safe driving skills. We are calling for passenger restrictions and a more structured learning programme for new drivers. We are also proposing greater powers for magistrates to tackle uninsured driving to provide a more effective deterrent than a small fine.
The research featured in this report appears in a ABI Insurance Market Study entitled Financial Inclusion and Insurance: Meeting low income consumers’ needs, which can be downloaded from our website at www.abi.org.uk

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