ABHI INSURANCE MARKET STUDIES

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.

Report by ABI Research Department
ABI Insurance Market Study No 3, 2007
EXECUTIVE SUMMARY

Key Findings

- People on lower incomes are much less likely to buy insurance. Of those with very low incomes:
  - Over a third have no insurance cover at all.
  - Under half hold home contents insurance compared to over 80% of those on average incomes.
  - A quarter hold life insurance compared to half of those on average incomes.
- The main reason identified for not purchasing insurance amongst lower income consumers was affordability; their "budget would not stretch".
- Lower income consumers are less likely to own insurable assets – such as a home or a car – which reduces their potential need for insurance.
- As a result of not holding insurance, lower income households are more likely to not replace items at all, or to do so by borrowing from a range of official and unofficial sources, increasing their indebtedness.
- Lower income groups are more likely to prefer face-to-face sales.
- Lower income groups are more likely than other groups to prefer paying premiums on a more regular basis, including weekly, although this was only preferred by 8% of the very low-income group.
- Traditional payment methods were more popular with lower income consumers, with 10% of those on very low-incomes preferring to pay for products by cheque and 9% prefer to pay with cash.
- Alternative sales channels, such as purchasing home contents insurance through a local authority or life insurance through a credit union, were more popular amongst lower income groups.

Background

ORC International was commissioned by the Association of British Insurers (ABI) to conduct a survey to assess awareness of and demand for insurance amongst low-income consumers. The aims of the research were to understand the extent to which:

- the insurance industry meets the needs of low-income consumers;
- social and other barriers inhibit the purchase of insurance.

A total of 1,047 face-to-face interviews lasting 20 minutes were undertaken in June 2006. The sample was split into three main segments:

- Those with very low household income of under £10,000 per annum (283 interviews).
Those with low household income of between £10,000 and £15,000 per annum (500 interviews).

Those with average household income of between £15,000 and £30,000 per annum (264 interviews).

The very low and low-income groups are collectively referred to as the lower income groups/households in this report.

**Current holdings of insurance**

Thirty five percent of those on very low incomes did not hold any type of insurance at all. Forty-four percent of those in this group held home contents insurance compared to over 80% of those on average incomes. In terms of motor insurance, drivers in the very low-income group were more likely to buy third party, fire and theft policies compared to those on average incomes. Similarly, those on very low incomes were much less likely to hold life insurance than those on average incomes.

In the low income group 17% did not hold any type of insurance. Higher penetration of motor insurance reflected higher car ownership levels for this group with 59% of those surveyed holding motor insurance. A higher proportion held life insurance (37%) compared to the very low-income group.

Ninety five percent of those with average income held at least one type of insurance. Almost all homeowners held both home contents and buildings insurance. A significant majority of those with motor insurance held fully comprehensive cover (85%). Life insurance was held by over half of this group.

**Buying insurance**

Buying insurance face-to-face is still one of the most common options for taking out policies, particularly for home contents and life insurance. It is more commonly used by those with low and very low incomes compared to those on average incomes, where use of the telephone is more common.

The majority of those who own insurance products pay their premiums by direct debit, although payment by cash or cheque is more common amongst those on lower incomes. Monthly payments are made for most policies. A small minority still pay in weekly instalments for home contents and life cover.

**Barriers to taking out insurance**

For the majority in the lower income groups the key barrier to holding insurance is affordability. The desire to hold insurance is there but budgets will not stretch to it.
We find that 32% of the very low-income group, 15% of the low-income group and 5% of the average income group would like to purchase home contents insurance but budgetary constraints prevent them. Apathy as a reason for not holding home contents insurance appears to be similar across income groups. The figures for those who do not want insurance are small for each group. The proportion of people who have been turned down or assume they will be turned down is negligible.

For life insurance, 38% of the very low-income group, 21% of the low-income group and 9% of the average income group say budgetary constraints prevent them purchasing insurance. Apathy is similar across the three income groups. However, the figures for those who do not want life insurance reveal a different pattern with 8% of the very low-income group, 15% of the low-income group and 15% of the average income group not wanting insurance. The proportion of people who have been turned down or assume they will be turned down is, again, small and similar across all three-income groups.

Some of those not currently holding insurance have different preferences for how they would prefer to buy. Typically, there is less appetite for direct debit amongst non-holders, and a greater reliance on cash amongst those that do not have insurance. Face-to-face is still the overall preferred choice for purchasing insurance amongst non-holders. The potential for telephone distribution is lower, with non-holders on lower incomes less likely to prefer this option than other groups.

Additional distribution through local authorities could boost the purchase of insurance, with a relatively high proportion of those on low or very low incomes, regardless of housing tenure, rating this as a possibility. Purchase through employers is also an option, particularly for life insurance.

**Coping Strategies**

Almost a quarter of those in the very low-income group without home contents insurance coped with a loss by not replacing stolen or damaged items. While 18% of those on very low incomes said they saved up to replace possessions, none mentioned that they already had savings available so they could replace items immediately. Of those with a very low income, a third borrowed funds to replace possessions.
1.0 THE PROFILE OF LOW AND AVERAGE INCOME GROUPS

In order to understand the factors most likely to indicate or contribute to exclusion from insurance provision we have looked at households by gross income level. We set out the profiles of three income groups below, and detail their housing tenure, car ownership and access to banking services.

**Very low-income households:** Defined as having a household income of under £10,000 per annum. The majority of respondents (73%) in this category live in accommodation rented from either the council or housing associations with only a small minority of private renters (17%) or owner-occupiers (10%). Only 1 in 10 of this group worked full-time with a further 1 in 10 working part-time. The majority were claiming state benefits. A relatively low proportion of this group had access to banking services (73%) or an ‘emergency pot’ of funds. Car ownership is also lower in this category – around 34% of these households own a car.

**Low-income households:** Defined as having a household income of between £10,000 and £15,000 per annum. A slightly lower (61%) proportion of the low-income respondents live in social housing compared to the very low-income group. Half of this group were earning a wage or salary, and half were claiming state benefits. Access to banking services was higher with 85% on low incomes having access to a bank or building society account through which they could pay bills. A more substantial ‘emergency pot’ was also available. The level of car ownership in this group was higher (60%) compared to the very low-income group.

**Average income households:** Defined as having a household income of between £15,000 and £30,000. The housing tenure profile of the average income group was very different from the lower income groups. A much higher proportion reported being owner-occupiers (44%), while fewer were social renters. The majority were earning a wage or salary and access to banking services was widespread (94%). Their ‘emergency pot’ was more substantial with 21% having access to over £3,000 in savings. The majority (83%) owned a car, and were more likely than the lower income groups to have more than one car in the household.

To put these three household income groups into context we have used data from Family Spending.¹ This shows that around 20% of households have a gross annual income of £10,000 or less. Ten percent of households have an income of between £10,000 and £15,000. And around 30% of households have an income of between £15,000 and £30,000. So, in total, these income groups represent around 60% of all UK households.

2.0 CURRENT HOLDINGS OF INSURANCE

To establish current insurance holdings respondents were asked which types of insurance they currently held (personally or jointly) from a list provided.

2.1 Holding by income group

2.1.1 Insurance holdings of the very low-income group

Thirty five percent of the very low-income group did not hold any type of insurance at all. Home contents insurance was a priority for owner-occupiers in this group with all homeowners holding home contents insurance (only 10% of the very low-income group were owner-occupiers). Almost 40% of both social and private renters in this bracket had home contents insurance. Those aged over forty-five were more likely to hold home contents than those under the age of forty-five.

Overall low motor insurance penetration reflected low car ownership. In terms of the type of motor policy, drivers in this group were more likely to go for the cheaper options. Only 71% held fully comprehensive policies in comparison to 85% of the average income group. Over a quarter (28%) of car-owners on very low incomes held third party, fire and theft policies compared to 13% on average incomes.

Life insurance was held by fewer in this group (24%) and was more commonly held by those over forty-five. It was also less likely to be held by single people (15%) than married or divorced/separated people (30%). Of those holding life cover, a higher proportion than in the other income groups maintained they held ‘whole of life’ policies. Other types of insurance were mentioned much less frequently than by the other groups.

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2 ‘Whole of life’ is a policy where premiums are paid for the rest of an individual’s life, or up to a specified advanced age, and benefit is paid on the death of the person insured, whenever that occurs.
2.1.2 Insurance holdings of the low-income group

In the low income group 17% did not hold any type of insurance. Almost all homeowners held home contents and buildings insurance and a higher proportion of renters (social and private) held home contents than their counterparts in the very low-income group. Higher penetration of motor insurance reflected higher car ownership levels for this group, with 59% of those surveyed holding motor insurance.

A higher proportion held life insurance (37%) compared to the very low-income group. Whole of life policies were, as with the very low-income group, the most commonly held.

2.1.3 Insurance holdings of the average income group

Ninety five percent of those with average income held at least one type of insurance. Almost all homeowners held both home contents and buildings insurance. A high proportion of renters also held home contents insurance (two thirds of private renters and almost three quarters of social renters), in contrast to the lower income groups.

The majority of the average income group held motor insurance, which reflects the high level of car ownership. A large majority all of those with motor insurance held fully comprehensive cover (85%).

Life insurance was held by over half of this group and they were more likely than other groups to hold different types of protection, including term assurance, endowment...
Almost two in ten held at least five other types of insurance.

2.2 Holdings of key types of insurance

Figure 2 shows how holdings of home contents, motor and life insurance vary across income groups. These product types were identified by survey respondents as the most important product types.

In the very low-income group, a relatively high proportion did not hold home contents, motor or life insurance, while only a minority held all three. Not surprisingly, motor insurance (which is compulsory) was the ‘must have’ insurance for those who owned a car. This was true across all income groups. There is little indication that taking on a compulsory policy lowers the likelihood of holding other products. Those who held motor policies were more likely to hold other types of policy than those who did not.

Figure 2  Number of home contents, life and motor insurance policies held by income group


3 ‘Term assurance’ provides life insurance for a specified number of years. The insurer only pays out if the policyholder dies within this time.

4 ‘Endowment saving’ is life insurance policy which pays a sum of money after an agreed period of time, or on the death of the policyholder, whichever happens first.

5 ‘Mortgage protection’ is a life insurance policy which covers the outstanding amount of mortgage if the policyholder dies before the loan is repaid.
3.0 BUYING INSURANCE

3.1 Choice of distribution channels

The face-to-face distribution channel was more commonly used across the two lowest income groups. It was a popular choice amongst the lower income groups for purchase of home contents insurance and was the most common method used to buy life insurance across all income groups.

The telephone was most commonly used to buy motor insurance. Few purchased insurance over the Internet. Internet purchases were only slightly more likely to occur amongst those with average incomes than in the lower income groups. Younger households were more likely to use the Internet than older households. A minority purchased their insurance via the post.

Figure 3 Choice of distribution channel


3.2 Choice of payment methods

Direct debit was overwhelmingly the most common means of paying premiums across all income groups, followed either by cheque or cash, depending on the type of insurance taken out. For life insurance premiums, those with average incomes were more likely to use direct debit than the very low-income group. Cash or cheques were more likely to be used by the very low-income group, particularly for paying for motor insurance premiums.
Figure 4  Choice of payment methods


3.3 Frequency of premium payment

The most common way of paying premiums was in twelve monthly instalments, reflecting the use of direct debit payments. Payment by single annual premium was the second most likely method used, particularly for motor premiums. There may be evidence of different budgeting choices since a higher proportion of the very low-income group paid for home contents and life insurance weekly.

Figure 5  Choice of payment frequency

4.0 THE IMPORTANCE OF INSURANCE

4.1 Perceptions of insurance

To identify the factors which drive demand for insurance within each income group, respondents were asked to rate how important they felt different types of insurance were for ‘people in your circumstances’.

Overall, home contents, motor insurance and life insurance were reported as the key types of insurance. Those in the very low and low income groups were less likely to rate particular types of insurance as important than those in the average income group. When assessing priorities for motor insurance, ratings of importance across the income groups reflected the trend of lower car ownership amongst the lower income groups. When looking specifically at car owners within each income group, almost all rated motor insurance as important.

A higher proportion of those in the average income group rated life insurance as important, compared to the two lower income groups. This was also the case amongst households with dependents, a factor that might be expected to equalise priorities. Sixty percent of the very low-income group and 64% of the low-income group said that life insurance was important compared with 78% of the average income group. Over a quarter (26%) of those with dependents in the very low-income group felt life cover was not important, compared to 13% of the average income group.

The differences in insurance priorities between the three income groups were also evident for travel insurance, buildings insurance, income protection, payment protection and critical illness. For buildings insurance the majority of owner-occupiers within each group rated this as important. For income protection, when looking at those in full time employment in each group, those on average incomes rated this as more important than the lower income groups. A possible explanation for this is the differing levels of income to be protected and the extent to which benefits are an adequate replacement for income. Similarly those who held credit, debit or store cards in the lower income groups rated payment protection insurance as less important in comparison to those in the average income group.

For insurance product types that were rated as a lower priority, few significant differences in importance by income group were identified. These included private medical, dental, health cash plans, funeral expenses and pet insurance. Private medical and dental insurance were more likely to be classed as of ‘no importance at all’ by the very low-income group compared to the other income groups.
4.2 The impact of being uninsured

The absence of insurance has various impacts on consumers. One of the main concerns is that if a loss event does occur then those without insurance will have to borrow funds or go without a replacement item. There are also impacts even if a loss event does not occur. Whley et al. (1998) found that there are groups of consumers without insurance who feel anxious that they are unable to protect themselves from losing property in a burglary. Work by Kempson and Whley (1999) also draws attention to the problems faced by parents (especially lone parents) who do not have life insurance and the unease they feel about who will support their children.

Respondents reported using a number of different strategies for coping with losses. State support for those who do not have home contents insurance has gradually reduced and there is some evidence that the lower income groups were more likely to borrow to cover losses or go without new items. Despite holding insurance, not everyone that suffered a loss claimed on their policy.

4.2.1 Coping with theft, burglary, fire or flood

Home contents insurance was generally rated as the highest priority by all groups. The majority (88%) had not lost or had any possessions damaged through theft, burglary, fire

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or flood since January 2003 (the survey took place in June 2006). Six percent of the sample had experienced theft/burglary and 3% had experienced flooding. Three individuals mentioned loss due to fire.

There were no significant differences across the income groups in terms of incurring losses, although the unemployed and younger age groups were more likely to have been a victim of a burglary or theft.

Of those who held an insurance policy and lost possessions 57% chose to claim on it. Some of the reasons given for choosing not to claim were that they were concerned that their premium would increase or that the loss was too small an amount given the excess. A small number of respondents (18% of those choosing not to make a claim) in the low-income group mentioned the process of claiming involving ‘too much trouble’.

Almost a quarter of those in the very low-income group coped with a loss by not replacing stolen/damaged items. While 18% of those on very low incomes said they saved up to replace possessions, none mentioned that they already had savings available so they could replace items immediately. Putting this into context, half of those on very low incomes only had access to under £100 in savings. Of those with a very low income, a third borrowed funds to replace possessions – from friends, commercial companies (loans), or on credit cards. In the average income group, very few respondents reported borrowing money to replace possessions. Where borrowing from friends and family is available it may only cover part of the loss since people in this group are less likely to know many people in a position to help them. Almost one in ten in the very low-income group applied to the Government’s Social Fund.

4.2.2 Coping with motor incidents

Three quarters of all private car owners mentioned no major incidents in the past 3 years.

A number of respondents with private cars in the household reported having their car damaged in an accident (12%), their car vandalised (5%), a claim made against them by another driver (3%) or their car stolen (2%).

Of those who had their car damaged or stolen, a higher proportion claimed on their motor policy (65%). Reasons for not claiming on a policy included that it was only a small amount of money, that they did not want to lose their no claims bonus or increase their premium, or that it was too much trouble.

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9 The Government’s Social Fund provides a one off lump sum payment to deal with emergency expenses, funeral costs, furnishing a home etc. In order to apply for a crisis loan you need to be over 16 and not have the resources to be able to meet the needs of your family.
5.0 **BARRIERS TO TAKING OUT INSURANCE**

5.1 **Profile of the uninsured**

The findings in this section are based on those who currently do not hold any insurance policies at all. Over one third (35%) of the very low-income group did not hold any type of insurance. This compares to only 17% of the low-income group and 5% in the average income group.

The profile of ‘non-holders’ of any insurance within the very low-income group indicates a potentially vulnerable segment. Demand side factors that were likely to prevent them from taking any form of insurance include:

**Low income and savings:**

- 44% had less than £5,000 in household income per annum.
- 60% had less than £100 in savings that they could access in an emergency.
- The majority (89%) were claiming state benefits and only 10% were earning a wage.

**Low asset base:**

- Over half (55%) were living in council rented accommodation, while a further 30% rented from a housing association.
- Almost all (97%) did not own a car or have access to one.

**Potential supply side factors included access to banking services:**

- Almost half (47%) did not have access to a bank or building society account that they could use to pay bills.
- Over a third (36%) did not hold any debit, credit or store card, while 43% did hold a debit card. Less than one in ten held either a credit or store card.
- Even where low income households do have access to banking facilities they may be unwilling to use direct debit either because they budget on a weekly basis or because they worried they may incur charges for going overdrawn.\(^\text{10}\)
- Reasons why people do not have a bank account are complex and vary greatly. Whyley (1998) found that of those without accounts a third had held accounts in the past but decided to close them. Those who had never had an account included a wide range of groups including women who used their husbands accounts, younger people who had yet to open an account, those who think they’ll be turned down and people who prefer to budget on cash.\(^\text{11}\)

Those without any insurance in the low-income group had a broadly similar profile. Only around a quarter (26%) were earning a wage. Just over half (53%) had less than £100 in savings that they could access in an emergency. Although access to banking services


were better for this group in comparison to the very low-income group, a third of non-insurance-holders did not have access to a bank or building society account that they could use to pay bills (this contrasts with the 13% of all low income respondents who did not have this facility).

### 5.2 Demand side issues affecting the take up of insurance

The findings in this section of the report relate to the responses of those who do not hold a home contents, life insurance or motor insurance policy. These respondents may hold other types of insurance.

#### 5.2.1 Retention of insurance

Of those not holding home contents, just over a quarter said they had held it previously. The very low-income group were less likely than other groups to have previously held motor or life insurance and then have given it up.

The breakdown of a relationship (for example through a divorce) may potentially sever the link with protection products. A higher proportion of those who were widowed/divorced/separated had previously held life insurance and then given it up.

#### 5.2.2 Affordability and price

Affordability is one of the key reasons for very low and low-income groups currently not holding insurance. ‘Our budget does not stretch to it’ was the top mention for those without life and home contents insurance.

**Figure 7  Reasons for not having home contents insurance, by income group**

![Figure 7](image_url)

**Source:** ABI ORC International Survey 2006. Sample = 399.
This finding – that budget limitations is one of the main reasons for lack of cover – is consistent with other work on financial inclusion such as Whyley (1998) and Office of Fair Trading (1999).\(^{12}\) Whyley makes the distinction between low income and low disposable income. This may help to explain our result that even in the average income group around 20% of those without home contents or life insurance said that their budget would not stretch to it.

Predictably almost all those without motor insurance responded that they either did not own a car or did not drive.

We can use the AA Insurance Premium Index\(^ {13}\) in order to analyze the cost of certain insurance products. The index, which tracks the growth in insurance premiums, began in July 1994 and uses this as the base quarter. In July 2007 the index for home contents insurance stood at 102.5 and the index for buildings insurance stood at 100.2. This means that in real terms the cost of buildings and home contents insurance has fallen by around 40% over the period July 1994 to July 2007. If we look at the percentage of the population who own home contents insurance and buildings insurance we find that in 1994, when the premium index started, 62% of the population held buildings insurance and 74% held home contents insurance.\(^ {14}\) This compares with 63% holding buildings insurance and 75% holding home contents insurance in 2006.\(^ {15}\)

\(^{14}\) The AA Insurance Premium Index is a quarterly index which calculates the cost of home contents, buildings and motor insurance from a sample of 500 insurance cases.
\(^{15}\) ONS Expenditure and Food Survey (1997-1998)
\(^{15}\) ONS Expenditure and Food Survey (2005-2006)
We can also analyse affordability by looking at the percentage of consumers in each income group who did not hold insurance and the main reason that they gave for being non-holders.

**Table 1  Reasons for not holding home contents insurance**

<table>
<thead>
<tr>
<th>Reason for not holding</th>
<th>Very Low</th>
<th>Low</th>
<th>Average</th>
</tr>
</thead>
<tbody>
<tr>
<td>With home contents insurance</td>
<td>44%</td>
<td>61%</td>
<td>82%</td>
</tr>
<tr>
<td>Without home contents insurance, of which...</td>
<td>56%</td>
<td>39%</td>
<td>18%</td>
</tr>
<tr>
<td>...Budget constraints</td>
<td>32%</td>
<td>15%</td>
<td>5%</td>
</tr>
<tr>
<td>...Apathetic towards insurance</td>
<td>8%</td>
<td>9%</td>
<td>8%</td>
</tr>
<tr>
<td>...No perceived need for insurance</td>
<td>6%</td>
<td>6%</td>
<td>2%</td>
</tr>
<tr>
<td>...Do not want insurance</td>
<td>6%</td>
<td>6%</td>
<td>1%</td>
</tr>
<tr>
<td>...Turned down / assumed turned down</td>
<td>1%</td>
<td>1%</td>
<td>0%</td>
</tr>
</tbody>
</table>

**Note:** Figures do not add up to the total figure because of "not sure" and "other" answers. Groupings are defined from Figure 7: Budget constraints = "budget doesn't stretch"; Apathetic towards insurance = "Haven't got round to it", "Not thought about it"; No perceived need = "Moving home soon", "Covered by someone else", "nothing worth insuring"; Do not want insurance = "More important things", "Not worth the money", "Prefer risk"; Turned down / assumed turned down = "Turned down", "Assumed turned down".

**Source:** ABI ORC International Survey 2006.

We find that 32% of the very low-income group, 15% of the low-income group and 5% of the average income group would like to purchase home contents insurance but budgetary constraints prevent them. Apathy as a reason for not holding home contents insurance appears to be similar across income groups. The figures for those who do not want insurance are small for each income group with 6% of the lower income groups and 1% of the average income group giving this as the main reason for them not holding home contents insurance. The proportion of people who have been turned down or assume they will be is negligible.

**Table 2  Reasons for not holding life insurance**

<table>
<thead>
<tr>
<th>Reason for not holding</th>
<th>Very Low</th>
<th>Low</th>
<th>Average</th>
</tr>
</thead>
<tbody>
<tr>
<td>With life insurance</td>
<td>24%</td>
<td>37%</td>
<td>52%</td>
</tr>
<tr>
<td>Without life insurance, of which...</td>
<td>76%</td>
<td>63%</td>
<td>48%</td>
</tr>
<tr>
<td>...Budget constraints</td>
<td>38%</td>
<td>21%</td>
<td>9%</td>
</tr>
<tr>
<td>...Apathetic towards insurance</td>
<td>16%</td>
<td>15%</td>
<td>16%</td>
</tr>
<tr>
<td>...No perceived need for insurance</td>
<td>5%</td>
<td>5%</td>
<td>3%</td>
</tr>
<tr>
<td>...Do not want insurance</td>
<td>8%</td>
<td>15%</td>
<td>15%</td>
</tr>
<tr>
<td>...Turned down / assumed turned down</td>
<td>2%</td>
<td>1%</td>
<td>0%</td>
</tr>
</tbody>
</table>

**Note:** Figures do not add up to the total figure because of "not sure" and "other" answers. Groupings are defined from Figure 8: Budget constraints = "budget doesn't stretch"; Apathetic towards insurance = "Haven't got round to it", "Not thought about it"; No perceived need = "Too young", "No dependents"; Do not want insurance = "More important things", "Not worth the money", "Prefer risk", "Too complex"; Turned down / assumed turned down = "Turned down", "Assumed turned down".

**Source:** ABI ORC International Survey 2006.
Life insurance exhibits a similar pattern to home insurance with 38% of the very low-income group, 21% of the low-income group and 9% of the average income group responding that they would like to purchase insurance but budgetary constraints prevent them. Apathy is similar across the three income groups. However, the figures for those who do not want life insurance reveal a different pattern with 8% of the very low-income group, 15% of the low-income group and 15% of the average income group not wanting insurance. This appears to represent a group who are uninterested in insurance. The proportion of people who have been turned down or assume they will be turned down is similar across all three-income groups.

There was also some evidence of resistance to purchase home contents and life insurance on the basis of a perception that it is poor value for money. For life insurance this was more evident amongst the average income group. For example, 23% of those without life insurance in the average income group thought that life insurance was "not worth the money", while 19% of those without home contents in the low-income group thought that home contents insurance was "not worth the money". Only 13% of those without insurance in the very low-income group felt that insurance was not worth the money.  

5.2.3 Apathy and lack of need

Some respondents felt that they had no real need for insurance. One popular reason given was that they had nothing worth insuring or they had no dependents to cover with life insurance. Research by the Office of Fair Trading has found that 7% of people without insurance have never thought about taking out a policy.  

Apathy was also a major reason for not holding insurance, with 12% in each income group saying they had not got around to taking out home or life insurance. Whyley (1998) finds that a similar proportion (between a tenth and a fifth) have simply not got around to taking out a policy. Recognition of need was an issue for life insurance; between 3% and 5% mentioned that they had not really thought about it, a finding, not surprisingly, that was higher among the younger age groups.

Across all income groups only a very small number thought they would be turned down for insurance and only a few respondents mentioned 'not being able to understand' life insurance as a reason for not holding it.

5.2.4 Other factors

Other work has highlighted that the lack of educational qualifications has an impact on, or is at least correlated with, the insurance products that a household holds. The Office of Fair Trading finds that around a quarter of households headed by somebody without

16 Average of "insurance is not worth the money" responses for home and life insurance.
educational qualifications didn’t have home contents insurance and almost two thirds had no life insurance.\(^{19}\) This is higher than the general population where 18% are without home contents insurance and 45% are without life insurance.

### 5.3 Supply side issues affecting the take up of insurance

Outright refusal by insurance companies to cover customers was a minor issue. A minority (1%) of the lower income groups had been refused home contents insurance or life insurance in the past. Only one respondent said they had been refused motor insurance. This finding an improvement on, though broadly similar to, the Whyley (1998) study which found that 2% of people without home contents insurance were refused a policy.\(^{20}\)

It is possible, however, that consumer preferences for particular purchase channels, payments methods, and payment frequency could affect future take-up for those who do not currently hold insurance. Regardless of income group, those who currently hold insurance appear to have successfully adapted to mainstream payment methods (see Section 4).

#### 5.3.1 Preferred purchase channels

The preferred distribution channel for taking out insurance among non-holders was face-to-face while purchase by telephone was the second most popular option. The proportion of respondents expressing a preference for telephone purchase of life insurance was actually higher than those who currently bought using the telephone. Those in the very low-income group were less likely to prefer using a telephone to buy insurance than those in the average income group. Preference for buying insurance face to face was lower for motor insurance than any other product.

Respondents were also shown a list of potential suppliers of insurance. The option of buying home contents insurance through their local authority appeared popular for a range of people in different types of housing. Of those not currently holding home contents insurance, over two-fifths on lower incomes (44% on very low and 41% on low incomes) said they would be very or quite likely to take up this option (compared to a third of those on average incomes). Almost half of all social renters rated take up as likely, as well as a third of private renters. Whyley (1998) found that this option had often been successful where it had reached out to uninsured consumers.\(^{21}\) The Office of Fair


Trading has also reviewed this distribution channel recommending that operators of social housing consider arranging insurance for their tenants.  

**Figure 9  Preferred purchase channel by income**

![Preferred purchase channel by income](image)

**Source**: ABI ORC International Survey 2006. Sample = 399.

5.3.2 Preferred payment method

There was less preference for using direct debit amongst non-holders when compared to holders and greater enthusiasm for using cash to pay premiums. This pattern was particularly evident in home contents insurance for all income groups and for life insurance amongst the very low-income group. Figure 9 summarises the preferred payment methods for the three income groups.

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Figure 10 Preferred payment method by income


5.3.3 Preferred payment frequency

Paying premiums by monthly instalments was the most common preference for those not holding home contents, motor and life insurance. Paying monthly was less likely to be preferred by the very low-income group than those on average income. This difference was particularly significant for motor insurance. While many could cope with monthly payments, those on very low and low incomes were more likely to prefer weekly instalments to pay for life and home contents.

Figure 11 Preferred payment frequency

A1 OBJECTIVES AND APPROACH

A1.1 Objectives

ORC International was commissioned to conduct research to assess the awareness of, and demand for, insurance amongst low-income consumers. The ABI specified a programme of research that would be robust and informative, indicating a large-scale study capable of comparison across different consumer segments.

The aim of the research was to understand the extent to which the insurance industry meets the needs of low-income consumers by developing a quantitative evidence base on the effective demand for key insurance products (home contents, motor and life insurance) within low-income households, and to develop understanding of the extent to which other elements of financial inclusion are barriers to accessing insurance.

The key objectives were as follows:

Objective 1 – To identify the effective demand for key insurances (home contents, motor and life protection insurance) amongst low-income households, including the quantification of:
  * Awareness of the range of insurance products, their preferences and needs; and
  * Effective demand for key insurance products.

Objective 2 – To identify the degree to which low-income consumers experience barriers to accessing insurance due to:
  * Demand side factors – including for example lack of income, experience of other types of financial exclusion (e.g. lack of banking/payment facilities, lack of advice/personal contact); and
  * Supply side factors – including for example lack of suitable products and distribution channels.

Objective 3 – To identify the mechanisms/strategies employed by low-income consumers when faced with a financial crisis, including views on the impacts of being uninsured and their strategies for coping in times of financial crisis.

Objective 4 – To identify the similarities and differences between consumers with low incomes and those with average earnings.
A1.2 Approach

The Survey
This report is based on data obtained from a survey of very low, low and average income consumers commissioned by the ABI and carried out by ORC International in June 2006. ORC International conducted face-to-face interviews with 1,047 consumers who had household incomes below £30,000 about their holdings of insurance and their attitudes to insurance.

The Data
The survey captures a range of data about consumers holdings of and attitudes towards insurance, including:

- Household income, housing tenure and car ownership.
- Household access to a bank account with which to pay bills.
- The number and the types of products currently held by the household.
- Their choice of purchase channel, payment method and payment period.
- If the household had experienced a “loss” event, whether they had claimed on an insurance policy.
- Reasons why non-holders of insurance choose not to buy insurance.
REFERENCES


**Aims and scope:** The Association of British Insurers (ABI) is the trade body representing the UK's insurance industry. The ABI Insurance Market Studies series is used to provide data and analysis about the insurance industry.

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