Can they take the heat?

Research suggests there could be several million households in need of low-cost, easy-to-pay contents insurance, but with no provider available. Chris Wheal says it's time for the insurance industry to take action

Deputy Prime Minister John Prescott's department announced in March that the UK would build more than 200,000 new homes every year for the next 23 years. The sad news for insurers is that, unless they significantly improve their market penetration, more than one million of those new homes will have no contents insurance.

The ABI still reckons that one in four UK households has no contents insurance. That means every fourth home you will pass on the way home from work today is a potential customer. That's a possible £500m of premium income staring the industry in the face. Add to that the very real prospect that many homeowners have seriously underestimated the replacement value of their home contents and you have under-insurance of gross proportions.

So why are so many house-holders not taking out such a basic, sensible product or under-insuring themselves?

First there are those the mainstream industry refuses to serve. With a contract based on 'utmost good faith' insurers shy away from people known to have lower ethical standards than it demands. For that reason, convicted criminals find getting insurance hard. But even where a specialist insurer is prepared to offer cover, there remain problems in accessing the market where more needs to be done.

Another group with no insurance is the people who either refuse or forget to take it out. A common thread is the undervaluing of their possessions. One government press officer quipped that he didn't have any household contents insurance. "We've just never got around to it and we don't have anything worth insuring," he says. But pointing out that if he lost everything in a fire and had to replace it instantly, he'd realise just how much his possessions were worth had the desired effect.

Another uninsured had more entrenched views. This was a middle-class family whose four-bedroom house had building insurance as a condition of the mortgage. The grand piano, which was on loan, had insurance as a part of the loan contract, and the daughter's cello had insurance because she travelled with her school and other orchestras. But, even when challenged, the mother insisted that nothing else in the house was of any value and that, even if all of it were destroyed, she'd rather replace it bit by bit. She did not want all new replacements at once. In the end, she insisted that she would never take out home contents insurance because of her dislike of insurers. That's a tough nut to crack.

But the biggest proportion comes in the shape of the large numbers of people on low incomes or dependent on benefits whose possessions really are worth less than the amounts covered in standard home contents policies and who couldn't afford the premiums anyway. They often live in high-crime areas that underwriters of traditional policies penalise with higher premiums. And many do not have the bank accounts and regular income required to spread the costs through direct debit instalments.

Insurers have done much to tackle this. In 1998, a government report into social exclusion glibly talked of insurers red-lining some areas and refusing to offer cover. It presented no evidence. Independent research from the Policy Studies Institute and the Institute for Public Policy Research the same year flatly contradicted this.

More recent government reports now praise the industry for its efforts. Alongside affinity schemes for target groups such as the elderly, insurers have been actively promoting the more widespread introduction of low-cost, low-sums insured schemes with simplified policies and easy payment methods. Some – usually in partnership with a council and run for its tenants – provide insurance-with-rent schemes. In these, tenants can pay the extra premium to the council with their rent. Others – often in partnership with housing associations – are run as arms-length operations but allow tenants to make small weekly cash payments into post offices or using other cash-based systems. Both these offerings insure sums as low as £6,000 on premiums that can be below £1 week and often with a zero excess on claims.

Major names involved include Norwich Union (NU) and Aon. Some schemes have been running for more than a decade but there has been more interest in recent years. The Housing Corporation is the regulator and part funder of registered social landlords (RSLs) – the catch-all name for housing bodies such as associations, co-ops, companies and trusts.

In 2001 the Housing Corporation brought out a report, with the help of the ABI, criticising RSLs for their lack of support for low-cost insurance schemes. That prompted an outbreak of bickering as the corporation called on the RSLs' trade body, the National Housing Federation (NHF), to establish a national scheme and the federation countered that it was the corporation that was charged by the government with tackling social exclusion so it should do it.

"Not much has changed to be honest," says Mark Evans, managing director of Farr, a specialist broker to RSLs. "It's not that they are reluctant anymore at the highest levels. There is a will to investigate or promote these schemes and decisions are taken at senior level. But they then appoint someone at below director level to investigate it.

"They then get tenant committees involved and it takes a long, long time. About 90% of RSLs opt for an arms-length approach rather than a with-rent scheme because they don't want to do the work or to be seen to be collecting money for a private company and then they don't promote it as they ➔

Every fourth home you'll pass today is a potential contents insurance customer – that's a possible £500m of premium income staring the industry in the face

➔ should do. At this point it is down to the housing officers and they don't see it as their role to promote it.

"Some are concerned that they will be seen as recommending one insurer, but promoting a capitalist insurer is not the top priority for many of those working in housing."

Evans adds: "Housing associations have to win the hearts and minds of their housing officers directly. They have to show them that, yes the insurer is there to make a profit but, this is a social benefit."

Dean Seager, operations manager of Aon Affinity, which has 120 such schemes and has launched or relaunched 30 in the past five years, has similar experience. "A big influence is the way in which the scheme is set up. With the traditional insure-with-rent schemes we tend to get a better response," he says. "But we do find that housing associations tend to go for the outsourced options instead. To a council, getting a high take-up rate is seen as a good measure of success."

A recent *Widening the safety net* report from Services Against Financial Exclusion (Safe), sponsored by Royal & SunAlliance and compiled by the Labour-supporting Demos think-tank, criticised RSLs for their approach saying they "do little to resolve the problems of access to insurance." This report estimated that there were three million social housing households uninsured.

Arthur Philp, underwriting policy manager at NU, which has been offering this kind of insurance for 10 years, says brokers end up doing all the promotional work. He sings their praises, but he reckons to run a successful low-cost scheme that can actually make money he needs about 4,000 customers. Seager says getting 25% take-up is doing well.

To make matters worse, the government's policy is for councils to transfer their homes to new RSLs and rarely in a single go. Usually, huge council stocks are transferred in small chunks.

This year will see the millionth council home transferred in this way. And once the council no longer collects the rent, it can no longer collect the insurance either, leaving it to the new RSLs to start from scratch and develop their own schemes with numbers that make it less economic for insurers without higher premiums.

Combine this with the fact that the post-transfer investment to improve the housing always comes with large rent increases and you can see the problem.

But not all the uninsured live in social housing and have access to a landlord scheme anyway. The 2003 English House Condition Survey, produced by the Office the of the Deputy Prime Minister (ODPM) found that of the homes that failed to meet the government's decent homes standard, 63% were owner-occupied and 15% were privately rented. There were 5.3 million private sector "non-decent" homes.

This survey also revealed that the number of vulnerable households (those in receipt of means-tested or disability-related benefits) living in non-decent homes in the private sector totalled 1.1 million. It would be reasonable to suggest that the many of the other private sector non-decent homes housed people without the means to make the necessary improvements and so probably also fell outside the mainstream contents insurers' target market.

Although past research has suggested that the majority of uninsured people live in social housing, there could be several million households in need of low-cost, easy-to-pay insurance but with no provider available.

The Safe report was only mildly critical of the government. No such politeness here. The government department that deals with people on benefits is the Department of Work and Pensions, but housing, councils and the government's Social Exclusion Unit come under the ODPM. It says that the Treasury, with its Financial Exclusion Taskforce, is in charge of money issues, but that the Department of Trade and Industry leads on indebtedness. How's that for joined-up government?

The government has set the financial exclusion agenda to concentrate on giving people financial advice, bank accounts and access to cheaper credit than that provided by loan sharks. This is known as the ABC (advice, banking, credit). Because insurers are offering low cost contents cover, even if take-up is low, the government will do nothing more about it. It appears more important to give people loans to replace their stolen or damaged goods than to insure them in the first place.

But the government sets the agenda and the likes of Safe are using MPs and early day motions to speed up the introduction of, and tie-down, the sorts of bank accounts and type of credit facilities that will come out of the Treasury's taskforce.

So what needs to be done? The Safe report has some good suggestions but the industry needs to be more proactive. It needs to fight its way back into the heart of government thinking, because only then will the housing and other social service providers be forced to take the issue seriously. It needs to lobby MPs to ensure this.

And the industry needs to be included not only in the thinking of the Financial Exclusion Taskforce but also in the ODPM's housing and local government offices as well as the work and pensions ministry. Hosting some joined-up meetings of these departments would be a good idea.

One target must be some structural change, to counter the fragmentation of social housing. That allows insurance provision over wider areas covering numerous RSLs and councils to ensure profitable numbers. And those private sector tenants need to be targeted by these schemes too.

The industry also needs to win the trust of housing providers and of their frontline staff, if it is to win the trust of reticent tenants. It needs to work with the Housing Corporation, the NHF, the Local Government Association and the housing officers' professional body the Chartered Institute of Housing – perhaps a link up between the CII to help train housing officers in the benefits of insurance would be the way to go. Providing insurance should become a core aim of social housing providers not an optional add-on.

Performance targets on the level of insured households should be added to measure of rent received and speed of repairs.

A general education campaign on the benefits of insurance and the dangers of no insurance is a must. Imagine something along

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Arms-length scheme in Kent

Kent housing association Russet Homes has had an arms-length insurance scheme for its tenants since 1996. It is brokered by Jardine Lloyd Thompson and underwritten by Royal & SunAlliance. Of the association's 6,500 homes, many of which will be covered by standard household policies or by other affinity schemes such as the policy offered by Help The Aged, 900 are insured with the scheme.

Cover levels go as low as £9,000 for most homes and £6,000 for pensioners. Premiums can be 80p a week or 48p for pensioners. Accidental damage cover is restricted to television screens and glass-top tables, but such cover as freezer contents do apply.

Sarah Shemeld, senior financial services administrator with Russet, says that although the association mentions insurance in its newsletters and has posters in its offices, the biggest impact on increasing take-up is when the insurer and broker fund a leafleting campaign to every household.

"Every three or four years we do leafleting campaign and that tends to lead to an influx. But it is expensive to do and it has to be funded by the insurer," Shemeld says.

the lines of the current anti-smoking campaign with a child talking about how everything was lost and its parents hadn't taken out insurance.

If done by the insurance industry it might look like scaremongering for a profit but as a government information campaign, or backed by Safe, it could be powerful.

And the industry needs to redouble its own efforts. Regular leafleting and targeting of tenants without insurance has a known and huge impact on take-up. Fast responses to claims and high-profile interventions to improve estates with problems ramps up the likelihood of further word-of-mouth recommendations – one of the biggest sales leads.

These new markets will need new ways of selling and new sales outlets too. But with millions of pounds of premiums there for the taking, it will be worth it. **IT**

An underinsurance warning

Tory leader David Cameron's parents made the news recently when they sold a couple of unwanted paintings. An original valuation of just £20,000 was upped to £250,000 by the auctioneers but the final sale price topped £800,000. It shows why regular revaluing home contents to ensure adequate cover levels is so important.

"In the event of a claim, if they are underinsured the insurer can apply averages," says Ian Cullen, sales and marketing director of Aon Private Client. "If you have £100,000 of contents but only £50,000 of insurance and have a total contents claim, the insurer will only pay £25,000."

He advises his clients to itemise every item in every room and add up the cost – and don't forget what's stored in the loft.

He says there is even software that will automatically upgrade prices. Each year the total grows as new items are added to the tally.

"I bought a new media centre and put all my CDs on it. So now I have 800 CDs in the loft. Every time I go to the supermarket I walk out with a CD I didn't really need, so very quickly you can have another 100 CDs," Cullen says.

The emphasis on premium price over quality of cover means too few insurers are insisting on accurate valuations, leaving many people with standard contents policies underinsured.

Insuring convicted criminals: the burning question

By the time you have read this, another old lag will have been released from prison.

About 200,000 ex-offenders are released every year, and one in five people has a conviction of some sort.

For most insurers these people present a moral hazard and are to be avoided.

If a policyholder keeps quiet about their past convictions, an insurer may later deny a claim. Damned if they do, damned if they don't.

Neil Cook, of broker Richard Weston, takes a different view. The burning desire of most ex-offenders to avoid the police at all costs, even to report a burglary, makes them a good bet for insurers, he argues. With the backing of specialist Lloyd's underwriters he has produced policies that cover them.

But the route to market involves public servants, predominantly in the shape of probation officers. Ex-offender charities are another potential help if they could advise.

Yet many do not see it as their job to promote a profit-making insurance policy or see a lack of household insurance as the least of the ex-offenders' problems.

Organisations that are prepared to pass on information – even if Biba can put them in touch with a specialist broker who can help – expect a huge commercial kick-back, which cannot be justified.

WHAT SORT OF CONTRACTS DO YOUR COMMERCIAL CLIENTS GIVE TO STAFF?

Businesses may not need to give staff anything more than a written statement of the main terms and conditions of employment, but failing to provide them with a properly drafted contract could be a recipe for disaster.

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