Community Finance Solutions

DEVELOPING MODELS FOR DELIVERING INSURANCE THROUGH CDFIS – OPPORTUNITIES AND RISKS

FINAL TECHNICAL REPORT

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About CFS
Located within the University of Salford, Community Finance Solutions (CFS) is an independent award-winning research and development unit engaged in promoting and developing integrated solutions for financial and social inclusion, and community ownership of assets.

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EXECUTIVE SUMMARY

Introduction

The present study looked at the feasibility of delivering insurance products through the UK Community Development Financial Institution (CDFI) sector. Its UK-wide presence and experience of working with financially excluded consumers would suggest that the sector could potentially be an effective conduit of insurance. The focus of the study was mainly on Home Contents Insurance (HCI) and on life insurance. This was because low-income households are at greater risk of and are vulnerable to death of a household member and loss of home contents, given that they live in high-risk areas and often rely on a single income.

In order to ascertain the feasibility of a CDFI insurance delivery model, we conducted focus groups with actual and potential target CDFI clients to understand the extent and nature of demand for insurance products. We reviewed the experiences of eight international and UK insurance schemes aimed at the financially excluded to understand key challenges and potential mechanisms related to the delivery of insurance to low-income, financially excluded households. Finally, in order to understand the legal opportunities and barriers for the provision of insurance through CDFIs, we examined the regulatory framework for insurance provision.

Vulnerability and access to insurance in the UK

Low-income households in the UK are especially vulnerable to income shocks, as they are at greater risk of crime, illness and premature death. They are also often in a weak position to sustain and increase their income through the labour market. In addition, there are growing economic, fiscal and political pressures for households and individuals to finance life-stage and life-cycle costs.

Yet, despite their vulnerability, low-income households and tenants are much less likely to be insured compared to the overall population and particularly compared to the middle to higher-income groups. Data from the 2005/2006 Family and Resources Survey show that the ownership falls in tandem with income, and that 91.5% and 39.7% of home owners had home contents and life insurance respectively compared with 35.9 and 19.5 for tenants.

These households are less likely to have HCI due to their tenancy status, low income and exclusion from mainstream financial services. Also, research suggests that as financially excluded or marginalised consumers living on a low income, they are likely to demand policies serviced by cash, with no excess and small minimum sums insured, which are not widely available in the mainstream market.

UK national government policy in this area has mainly centred on increasing the outreach and uptake of social housing tenant insurance schemes. Part of the remit of the Financial Inclusion Champions – a programme run by the DWP to build and coordinate partnerships to promote financial inclusion – is to work with housing associations and social landlords in particular geographical areas to increase the supply and take-up of appropriate home contents insurance schemes.

Demand for insurance policies

Only eight out of the 31 focus group participants had HCI. The insured were, with one exception, home owners and they were generally older households without children. The reasons for not having HCI were that insurance was too costly, that the participants had not got around to it, that the participants did not trust the insurer and that they did not like the principles of insurance.

As an ideal protection product, the participants wanted a simple and comprehensive policy covering all eventualities, including breakdown cover for household appliances. In addition, they wanted the product to be affordable and many wanted to at least have the option of paying in cash. Face-to-face sales were preferred, whereby the products and the fine print would be well explained. The focus groups participants also felt it was essential to be able to trust that the insurer would pay out in the event of a claim and that the claims process would respectful and would not criminalise the claimants.

Providing insurance to the financially excluded: the UK experience

Unfortunately, the lack of data makes it difficult to ascertain whether the existing schemes are making inroads in lowering the proportion of uninsured households. The estimates would indicate an average take-up of 10% for the Social Housing Landlord tenant insurance schemes. The ABI (2007) reports that despite the fall in costs in real terms of around 40% from 1994 to 2007, the proportion of the population with home contents and building insurance has remained relatively stable. This seems to be confirmed by data cited by Demos and Safe (2005).

We interviewed representatives from UK insurance schemes aimed at the financially excluded. The interviewees highlighted four issues that CDFIs must grapple with to make a dent in the number of uninsured households:

- Deep-rooted distrust among low-income households of insurers.
- Many low-income households believe that they do not have enough assets to warrant taking out an HCI policy.
- Many tenants mistakenly believe that they and the contents of their accommodation are protected against a range of incidents, such as leaking pipes.
- Many elderly tenants, who have a greater propensity to take out insurance, have already taken out an HCI policy with Age Concern.

Not all of the abovementioned factors were raised in the focus groups with CDFI target clients. For example, none of the focus group participants mentioned not having sufficient assets as a reason for not having insurance.

Providing insurance to the financially excluded: the experience of international MFIs

Drawing on the experience of the international microfinance sector in providing insurance for the financially excluded is an important component of the research. Because many MFIs have already incorporated insurance provision alongside microcredit and savings products, their experience may provide valuable insight into the potential institutional impact (human resources, structures and processes) of insurance provision for CDFIs.

The experiences of the international case study MFIs suggest that motivating staff and fitting the marketing and selling of insurance alongside their existing tasks constitutes a key challenge. Based on the practices applied by the case study MFIs, potential solutions to this include offering bonuses and putting in place a simple and quick method for explaining and selling insurance.

However, not all the lessons from that could be immediately applied in the case of the UK CDFI sector. Although compulsory policies avoid adverse selection, increase up-take and reduce administrative costs, CDFIs are unlikely to offer such products because it would contradict the goal of empowering their clients to access financial products corresponding to their particular needs.

That said a potentially very interesting lesson for the UK sector is the finding concerning a centralised back-office system. One of the international case study MFIs had a centralised back-office system which also enabled the reduction of cost per policy issued by the local microinsurance provider. A possibility for the UK CDFIs could potentially be to create a joint back-office system to reduce costs.

Regulatory framework – barriers and opportunities

There is no straightforward answer to the question on the regulatory implications for CDFIs if they were to get involved in insurance mediation[1]. First, it is possible that CDFIs may be exempt from regulation. The exclusions from regulation are largely contained in the "by way of business" test which tries to distinguish insurance intermediation carried out for business purposes for commercial gain from intermediation that is really a by-product of some other activity. In this case, the CDFIs would only need to report that they are within the parameters for exemption. Second, if the CDFIs were to be regulated, the numerous overlapping regulatory concerns and the move towards outcome-based regulation, makes it difficult to ascertain the exact implications of being regulated.

However, it would involve regular reporting to the FSA concerning financial status (e.g. balance sheet, profit and loss account, professional indemnity insurance etc), human resources (training and competence) and management systems (conduct of business, processes to deal with conflicts of interest). Although the CDFIs currently have some limited reporting in relation to DWP funding and have to comply with some relevant regulation under the Consumer Credit Act, becoming regulated under the FSA would most likely lead to a substantial increase in the regulatory burden and therefore an additional cost for CDFIs to meet.

Next steps – towards a model of CDFI insurance provision

On the basis of the government emphasis on increasing the proportion of households with HCI and of the latent demand for HCI detected in this study, it might seem natural to recommend that CDFIs start offering HCI. Nevertheless, for three reasons we recommend that the CDFIs do not offer HCI, at least for the time being:

- In light of the deep-rooted and very negative attitudes of the focus group participants towards HCI and HCI providers, we fear that offering HCI could potentially have a negative impact on the reputation of the CDFIs.
- Because scale appears to be a major driver of affordability nationally and internationally, there are serious doubts as to whether CDFIs would be able to achieve affordable policies for its clients, given the limited number of clients.
- Although take-up can be improved, existing schemes have the potential effectively meeting the demand of uninsured households. For example, the focus groups and the interviews with insurance providers suggest that premium-payment with rent is likely to raise up-take of existing social housing insurance schemes.

Instead, we recommend that the CDFIs examine the potential of offering a voluntary, combined life and credit life insurance policy. Historically, if delivered in the right way, life insurance policies have proven popular. Claims processing is in most cases more straightforward and less controversial.

[1] A definition of 'insurance mediation' is given in section 7.1 of this report.

Glossary

ABI	Association of British Insurers
ADIE	Association pour le droit a l'initiative économique – French microfinance institution
CAP	Christians Against Poverty
CDFI	Community Development Financial Institution – independent organisation lending and investing in deprived areas and underserved markets without access to mainstream finance
CETZAM	Christian Enterprise Trust Zambia – Zambian microfinance institution
DWP	Department for Work and Pensions
FSA	Financial Services Authority
FSMA	Financial Services and Market Act 2000
HCI	Home Contents Insurance
IWG	Insurance Working Group
MFI	Microfinance Institution
NHF	National Housing Federation
NIC	National Insurance Contribution
OFL	Options for Life
OI	Opportunity International
RAMR	Retail Mediation Activities Return
WWF	World's Women Foundation – Colombian microfinance institution

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1. Introduction

This technical report presents the findings of a study into potential models for delivering affordable insurance through Community Development Finance Institutions (CDFIs). The UK CDFI sector already offers savings and affordable credit enabling low-income households to accumulate consumer durables and furniture, and to cope with small and predictable external shocks. Therefore it does not seem unreasonable that the sector should also enable its clients to manage and cope with unpredictable shocks with great financial implications by offering insurance products.

Yet to date, there has been limited focus on providing affordable insurance products to excluded households using CDFIs, let alone a feasibility study. This is somewhat surprising, considering that the Association of British Insurers (ABI) has cited the lack of trusted distribution networks to get the product to the market as one of the obstacles for insurance provision to low-income households.[2] There are several reasons for why CDFIs could potentially be a trusted distribution network linking low-income segments of the market and insurers.

First, the sector is already marketing and delivering specialised financial products to low-income segments of the market. Hence the CDFIs have already grappled with many of the problems they are likely to encounter in delivering insurance to this segment of the market, such as information asymmetries, adverse selection and high transaction costs (Siegel et al, 2001). Moreover, research suggests that cross-selling insurance alongside other financial products is an important determinant of the possession of HCI (Whyley et al, 1998).

Second, the sector has an established circle of clients, to whom they could market these products. Currently the CDFIs have a presence in most of the UK with a growing outreach through offices and also by operating through the offices of social landlords.

Finally, in the case of the UK, a potentially added advantage of working through the CDFI sector is that it tends to insist on customers servicing loans through bank accounts and in some cases it offers support for customers to open and manage such accounts. This is important given that the reliance on direct debits and automated transfers is an important barrier for accessing and servicing insurance among financially excluded households.

Among the potential benefits for the CDFIs is that insurance may reduce the impact of external shocks on the ability of the clients to service loans and that it may constitute an additional source of income (Siegel et al, 2001).

However, the feasibility of delivering affordable insurance products through this sector ultimately depends on three factors:

- Is there a sufficient demand justify a CDFI insurance scheme?
- Are existing insurance schemes targeting the financially excluded sufficient to meet this demand?
- Do viable models for the delivery of insurance products to excluded households through UK CDFIs exist?

It is important to note that we in this study mainly focus on Home Contents Insurance (HCI) and on life insurance. As we discuss in Chapter 2, low-income households are

[2] Meeting note of Financial Inclusion Taskforce meeting – 12 April 2007

at greater risk of and are vulnerable to death of a household member and loss of home contents, given that they live in high-risk areas and often rely on a single income.

In order to answer the questions set out above, we conducted focus groups with actual and potential target CDFI clients to understand the extent and nature of demand for insurance products. We also reviewed the experiences of eight international and UK insurance schemes aimed at the financially excluded to understand key challenges and potential mechanisms related to the delivery of insurance to low-income, financially excluded households. Finally, in order to understand the legal opportunities and barriers for the provision of insurance through CDFIs, we examined the regulatory framework for insurance provision.

We find that there appears to be a latent demand for HCI and life policies, and historical data on the proportion of uninsured household would suggest that existing schemes do not meet the demand for HCI. However, in light of deep-rooted negative attitudes towards HCI and its providers, we recommend that the CDFIs do not start offering HCI because of the reputational risk for the CDFI sector. Instead, we recommend that the CDFIs examine the potential of offering a voluntary, combined life and credit life insurance policy. Historically, if delivered in the right way, life insurance policies have proven popular. Claims processing is in most cases more straightforward and less controversial.

The remainder of this report is divided into seven chapters:
- *Chapter 2:* Insurance for low-income households: demand, access and barriers
- *Chapter 3:* Methodology and research design
- *Chapter 4:* Demand for insurance products among CDFI target clients
- *Chapter 5:* Providing insurance to low-income households: the UK experience
- *Chapter 6:* Providing insurance to low-income households: the experience of international microfinance institutions (MFIs)
- *Chapter 7:* Regulatory review: Barriers and opportunities
- *Chapter 8:* Conclusions: Towards a CDFI model for insurance delivery

Additional documentation can be found in appendices:
- *Appendix A:* UK Insurance Scheme Interview Guide
- *Appendix B:* International Microinsurance Interview Guide
- *Appendix C:* Focus group topic guide
- *Appendix D:* Introduction to Guided Sales

2. Literature review: Access and barriers to access to insurance for low-income households in the UK

2.1. Introduction

This chapter reviews a range of relevant academic papers, reports and statistical sources relating to insurance in order to provide an overview of the vulnerability of low-income, financially excluded households and the potential need for insurance products; the access to and barriers to access to insurance among deprived households and; UK and international insurance schemes targeting the financially excluded.

2.2. Vulnerability of low-income households

Low-income households in the UK often live a precarious existence. They are generally at greater risk of income shocks, as they have more unstable income stream owing to tenuous links to the labour market. According to Howarth and Kenway (2004, p.29), "40% of people making a new claim for job seekers' allowance were last claiming the same benefit less than six months previously", suggesting that many households on benefits move in and out of employment. Furthermore, there has been a general rise in temporary employment. For example, the 1990s saw a doubling of the number of men in non-permanent positions (Cam et al, 2003 cf. Burton et al, 2004).

Furthermore, for numerous reasons low-income households often find it difficult to meet immediate or short-term (e.g. legal fees, funeral and associated expenses), recurring costs (e.g. bills, rent, household consumption) and long-term effects (e.g. loss of income source) associated with income shocks (e.g. death in household, loss of job) and expenditure hikes.

First, low-income households are concentrated in low-wage, low-skill sectors or on a fixed wage. This income may in many cases be just enough to cover the very basics of consumption leaving little or no room to cut or to smoothen consumption in the face of external shocks or drops in income. In addition, many low-income households rely on single income. Smith and Middleton (2007) find that single-income households are less likely to escape poverty. Out of the households that entered poverty, 50% of the single-income households with a child of less than six years of age escaped after a year, compared to over 90% of dual-income households without children (Smith and Middleton, 2007, p.81).

Second, as they are on a low disposable income and often lack the safe means of saving (e.g. savings accounts), low-income households are often not able to build up a considerable buffer in the form of savings which they can draw on in the case of an emergency. Indeed, a recent study showed that 43% of households had no savings whatsoever (Treasury Select Committee, 2006 cf. New Policy Institute, 2007). This is particularly the case for low-income households. According to the Financial Resources Survey of 2004-2005, 60% of households with incomes in the poorest fifth found themselves unable to save as little as £10 on a monthly basis (New Policy Institute, 2007).

Third, a combination of low educational attainment and skill levels often leave these households with a limited range of opportunities to supplement household income in the labour market. This is reinforced by the fact that people in low-skill jobs are less likely receive job-related training compared with people in higher-skill professions

(Howarth and Kenway, 2004). Particularly for low-income households with children – one third of low-income households have children (Palmer et al, 2006) – it may be difficult to find a job with a sufficiently high salary to cover child costs, transport and other costs (Howarth and Kenway, 2004).

These drivers of vulnerability are further accentuated by broader economic, fiscal and political pressures for households and individuals to make provisions for old age and to generally finance life-stage and life-cycle costs. Increasingly, social funding has become means-tested. There has also been a move away from grants towards loans in aiding low-income households make lump-sum payments to replace white goods and other consumer durables. The different benefits available to households experiencing external shocks are detailed in Box 2.1.

Box 2.1: Public safety-nets

There are a wide range of benefits households can recur to in the event of external shocks. Here we look at benefits in the form of interest-free loans and grants available to households in the event of external shocks otherwise covered by HCI or life insurance. In the event of burglaries, flooding and other external shocks low-income households in the UK, can access grants and loans through the social fund. The access to these funds is restricted by local availability so even if the applicant meets the criteria the application may be turned down.

- *Community Grants:* Grants available for furniture and household goods for recipients of means-tested benefits. Applications are only granted if seen as essential for remaining or integrating into community. In 2007-2008, 247,000 grants were made of an average value of £458 (DWP, 2008). The majority of recipients are lone parent and disabled households.
- *Budgeting loans:* Interest-free loans to cover one-off expenses, including household goods, granted to recipients of means-tested benefits. These loans are dependent on the local availability of funding. In 2007-2008, just below 1.2 million loans of an average value of £433 were awarded (DWP, 2008).
- *Crisis loans:* Non-means tested interest-free loan awarded to households experiencing an emergencies where payment of a crisis loan is the only means of avoiding a risk to health and safety. Payments can be issued immediately to living expenses or essential items. In 2007-2008, 1.4 million crisis loans of an average value of £82 were awarded (DWP, 2008).

Specifically in the event of the death of a household member, UK low-income households can potentially rely on the following public support mechanisms. It is worth noting that access to bereavement allowances is restricted by the insistence on National Insurance Contributions (NICs).

- *Funeral grants:* Grant covering burial plot, cemetery fees, travel costs and other funeral expenses granted to recipients of means-tested benefits and paid back from any estate of deceased. This grant is funded through the social fund and this depends on availability.
- *Bereavement payment:* Spouses and partners of deceased can claim £2,000 lump sum payment provided the deceased had paid their NICs or their death was caused by their job and either: the claimant is under State Pension age[3] when person died; or deceased was not entitled to Category A state Retirement Benefit[4] when they died.
- *Bereavement allowance:* Spouses and partners of deceased of 45 years of age and older can claim a maximum weekly allowance of £27.21-90.70 depending on deceased' NICs. This allowance can only be claimed by spouses or partners without children, under State Pension age and provided the deceased had paid their NICs or their death was caused by their job. This allowance can be claimed if and until the widow or widower remarries or moves in with new partner.

[3] The State Pension age is 60 for women and 65 for men

[4] Category A State retirement Benefit is based on a person's own NICs.

- *Widowed Parent's Allowance:* Spouses and partners of deceased who are also parents may be able to claim a maximum of £90.70 per week provided the claimant is bringing up a child or young person under 19, the claimant is pregnant with the baby of the deceased, the claimant is under State Pension age and deceased paid NICs or died as a result of their job
- *Guardian Allowance:* This allowance is for people bringing up children whose parents have died. Claimant has to qualify for Child Benefit for child or children the person is bringing up and one of the parents who died was either born in the UK, was from EEA or Switzerland or had been in the UK for at least 52 weeks during any 2-year period since they were 16 years old.

In addition, in the event of death in the household the remaining household members may claim community grants and crisis loans provided they meet the relevant eligibility criteria.

The Department for Work and Pensions (DWP) is currently considering replacing the interest-free crisis and budgeting loans granted under the Social Fund with interest-carrying loans issued by Third sector lenders (DWP, 2008). The emphasis on households being able to deal with life-stage and life-cycle costs is also reflected in the financial inclusion agenda. Much government effort has been directed at increasing the propensity to save among low-income households through the Savings Gateway and the Child Trust Fund. This means that households, including those at a low income, must increasingly ensure that they themselves are in a position to tackle income shocks and expenditure hikes.

2.3. Insurance as a coping strategy

Given these circumstances, insurance policies can under certain conditions be an effective strategy for low-income households to cope with external shocks. "Insurance reimburses an individual for some or all of a financial loss that is linked to an unpredictable event or risk" (Churchill et al, 2003, p.9).

This means that, providing the chance of the event occurring is relatively small, an insurance policy is likely to offer greater compensation than if the households were to put equivalent amounts into their savings accounts (Brown and Churchill, 1999). This is because the households with an insurance policy pool their resources to provide compensation for the policy holders who are negatively affected by the event in question, allowing the insurer to spread the risk over a pool of households and compensate the claimant in full (Brown and Churchill, 1999). Typically insurable events include fire, burglary or death of main bread-earner: they are unpredictable, but result in considerable losses.

It is important to stress that insurance policies are only effective means of coping with shocks that have a relatively high uncertainty and that cause large losses. Events that are more certain to happen and that have smaller loss implications may be more effectively dealt with by loans, savings or investment products. Life-cycle (weddings, funerals, baptisms) and life-stage events (retirement, setting up a home) are good examples of shocks for which households can be prepare through pension plans, loans and savings.

2.4. Access to insurance

Yet, despite its potential importance for vulnerable households, research suggests that many households, particularly those on a low income, do not have any form of insurance policy (e.g. Demos and Safe, 2005; ABI 2007). In this section, we use data from the most recent Expenditure and Food Survey (2005-2006) to look at the proportion of the population with life and HCI.

Extending the access to HCI is seen as a key priority for the government (HM Treasury, 2007), whilst life insurance is a potentially important product for vulnerable groups given the high prevalence of single-income households among the poor.

Tables 2.1 and 2.2 display the proportions of UK households with home contents and life insurance by tenancy and income level respectively.

Table 2.1: Proportion of households with insurance by income level

	UK average	Lowest income decile	Second income decile	Below median income	Above median income
HCI	75.2	43.7	58.1	63.6	86.8
Life insurance	33.8	14.9	19.9	24.3	43.4

Notes: Shown as percentage of all households with home contents and life insurance
Source: Expenditure and Food Survey 2005-2006

The data reported in Table 2.1 are largely in line with expectations and are similar to the findings of other studies. The proportion of households with HCI rises with income. For HCI, there seems to be a particularly large leap from the lowest to the second income decile. Only 4 in every 10 households of the lowest income decile have home content insurance compared to nearly 6 in every 10 for the second lowest.

These findings are largely corroborated by a recent survey conducted by the ABI (2007). The survey focused on households with very low income (<£10,000), low income (£10,000-15,000) and average incomes (£15,000-£30,000), and found that 35% and 20% of the very low and low-income households, respectively, had no form of insurance products (ABI, 2007). Disaggregated by product, the figures were even starker: among the lowest-income bracket 60% did not have a home content insurance and more than 75% did not have a life insurance (ABI, 2007). For low-income households, the figures were 40% and 60% respectively (ABI, 2007).

As we discuss in greater detail below, there are numerous reasons for why low-income households often are without insurance products, including that mainstream products may be unaffordable and not adjusted to their needs, and that low financial literacy prevents low-income households from realising the potential benefits of insurance products.

Table 2.2: Proportion of households with insurance by tenancy

	UK average	Owner-occupied	Tenants	Private tenants	SHL* tenants
HCI	75.2	91.5	35.8	36.5	36.3
Life insurance	33.8	39.7	19.5	17.2	21.2

Notes: Shown as percentage of all households with home contents and life insurance
* Social Housing Landlord
Source: Expenditure and Food Survey 2005-2006

Table 2.2 shows that both life and HCI are considerably more common among households in owner-occupied accommodation than social and private tenants. In particular, tenancy seems to exert a greater influence on the possession of HCI than income. Almost all households in owner-occupied accommodation possess HCI, whilst just over 35% of social and private tenants have HCI. These figures are similar if slightly lower than those generated by the survey conducted by the ABI (2007). They found that around 40% of social and private tenants had home content insurance, whilst 24% had a life insurance policy.

The data in Table 2.2 suggests that the pattern concerning life insurance is similar with households in owner-occupied accommodation are more than twice as likely to have a life insurance policy compared to tenants.

In their study Demos and Safe (2004) argue that there has been a divergent trend in the possession of HCI over the past decade. Whilst overall the proportion of the population with home content insurance has risen, the proportion of households in council estates with such insurance has fallen (Demos and Safe, 2005). In 2004, there was an estimated 3 million households living on council estates lacking HCI (Demos and Safe, 2005). Demos and Safe (2005) also reported a rise in the proportion of households without HCI.

The great difference in possession of HCI between home owners and renters is not surprising. The lower propensity of renters for possessing home content insurance can be explained by the fact that they move more frequently, have less control over property security and other risk factors affecting premiums (HM Treasury, 2007). In addition, HCI is sold and marketed alongside other financial products, particularly structural or buildings insurance. Given that home-buyers are required to purchase such insurance, they are likely to purchase home content insurance at the same time. For tenants, who do not take out building insurance, this opportunity simply does not arise (Whyley et al, 1998).

Historical data suggests that the ownership of HCI has remained fairly stable over the last 15 years. The ABI (2007) reports that despite the fall in costs in real terms of around 40% from 1994 to 2007, the proportion of the population with home contents and building insurance has remained relatively stable. This seems to be confirmed by data cited by Demos and Safe (2005). Between 1994/1995 and 2003/2004 the proportion of registered social landlord tenants fell from 63.4% to 59.2%, but the proportion of council tenants without insurance increased from 54.4% to 60.8%. The data from the most recent FRS suggests that the proportion of social tenants without insurance has remained stable at around 64%.

In sum, as highlighted in this section, the access to home content insurance is significantly lower among low-income households and tenants compared with the overall population and particularly compared with the middle to higher-income groups.

2.5. Barriers to access

There is a wide range of factors accounting for the low ownership of life and HCI policies among households living on low incomes and in rented accommodation. On the demand side, there are three main factors reducing the propensity of households to take out insurance policies.

First, like other financial products, insurance policies are often not appropriately designed to accommodate the needs and preference of low-income consumers. Premiums may be too high for households who find themselves unable to save as little as £2.50 on a weekly basis. There is often no allowance for lapses increasing the risk of discontinuation of policies given the low and fluctuating incomes of low-income consumers.

Second, the channels through which insurance is sold and distributed are likely to discourage low-income consumers from purchasing insurance policies. Insurance is often sold online or telephonically and serviced using direct debits. Yet, research indicates that these households often prefer a more personalised, face-to-face delivery and servicing of financial products (Collard et al, 2001; IPSOS Mori, 2007).

Finally, a low degree of financial literacy and understanding of insurance products may make low-income households less likely to solicit such products (Collard et al, 2001). In particular, the Insurance Working Group (IWG), established by the Financial Inclusion Taskforce, highlights the lack of understanding of the benefits of insurance and mistrust of insurance companies as important demand-side barriers to accessing insurance for low-income households (IWG cf. HM Treasury, 2007).

In light of these demand issues, Burton et al (2007) argue that the demise of industrial branch, or home service, insurance sold and serviced through an insurance sales agent network has been detrimental for the access to life insurance policies for low-income, working class households. The penalties imposed for missing direct debits combined with the high minimum premium payments make seeking insurance with traditional insurers undesirable (Alteroff et al, 2004). Conversely, the low minimum premiums, door collection service and flexibility of payment terms made industrial branch insurance an enticing product for low-income households (Burton et al, 2007).

However, over the past two decades three factors conspired leading to the demise of industrial branch insurance (Alteroff et al, 2004; Burton et al, 2005; Leyshon et al, 2004). First, in the 1980s there was an increasingly hostile view of the high cost door-to-door servicing of insurance associated with industrial branch insurance among regulators and policy-makers (Alteroff et al, 2004). Second, the introduction of the new Financial Services Act of 1986 led to increasing costs to comply with trading and staff training standards. Finally, legislation was introduced which allowed for the conversion of industrial branch companies to ordinary branch-based insurance companies.

On the supply-side, the high risks involved in delivering insurance to low-income households have worked as a barrier for the insurance industry in delivering insurance to these households. Low-income households often live in areas where they are at greater risk of becoming victims of crime. Households living on council estates are two times as likely to be burgled compared to non-council estate households (Safe and Demos, 2005).

Furthermore, considerable research suggests a strong link between deprivation and poor health outcomes. In Europe, research has found material poverty to be the single-most important indicator of life expectancy at birth (World Health Organisation, 2002). In the UK, death rates from heart disease and lung cancer among people aged 35 to 64 are twice as high among people from a manual background compared to non-manual background (Palmer et al, 2006). Further, twice as many people in the age group 45 to 64 have a limiting long-standing illness or disability among the poorest fifth compared to those on average incomes (Palmer et al, 2006). The figures are similar for adults at risk of developing a mental illness (Palmer et al, 2006).

These risks combined with the relatively small profit margins of offering insurance to deprived households make it hard to justify concerted efforts to reach out to this segment of the market. Reaching these households is not only likely to involve market research, but also the tailoring of products, product delivery and premium collection to their needs. In addition, given their preference for face-to-face sales and the lack of other financial products such as current accounts, delivering insurance to this group would most likely involve a personalised, face-to-face delivery mechanism and possibly complementary financial education and support.

The barriers we discuss above are largely associated with the social and economic characteristics of low-income households as consumers. However, there are also other important non-economic barriers to insurance. A criminal conviction can effectively prevent a person or the people living with that person from accessing home content or other insurance policies (UNLOCK, 2008). Currently there are around 7.2 million people on the Offenders Index living in the community, for offences ranging from fines and absolute discharges to more serious crimes, such as arson and murder (Home Office cf. UNLOCK, 2008). People on the Offender Index have to report the offence to insurers for a minimum of 6 months after the conviction (absolute discharge) to forever (prison sentences of 30 months or more).

"The vast majority of insurers will refuse or cancel any cover for people with unspent convictions or a policyholder living in the same home" (UNLOCK, 2008, p.20). In a recent study by UNLOCK (2008), the National Association of Reformed Offenders, a fictional person with a fine of £250 for an unpaid fine for littering was unable to get any quotes for car or HCI with any of the major online price comparison sites due to unspent convictions.[5] Another example of the impact of this barrier can be found in a recent article in the Observer. Jamie Elliot (2009) reports:

> *Michelle Barber is paying a high price for not telling her insurer about a minor conviction. Her home was wrecked by fire in 2007 and she now faces a bill for more than £240,000 because she failed to mention a £150 fine imposed three years earlier for an overpayment of benefits.*

Another potential non-economic barrier to accessing mainstream insurance is religion. For many practicing Muslims, of which there are over 1.5 million in England according to the 2001 census, accessing mainstream insurance policies is at odds with their religion because they are incompliant with Sharia law. There are three specific aspects of the methodology of conventional insurance that contradict Islamic principles (Anwar, 1994).

First, mainstream insurance provision contains elements of usury or interest (Riba) which is not allowed under Islam. According to Islamic scholars, the insurers do not share the risk, but "earns the interest on the premiums merely for his service in [accurately] predicting the risk for the insured" (Choudhury, 1981, p.1). Also, insurance premiums are deposited in interest bearing investments, which is forbidden by Islam.

Second, there is an element of indeterminacy or uncertainty (Gharrar) in terms of claims and pay-out under mainstream insurance contracts because the insured does not know when or if the event against which he or she is insured will occur. Sales involving risk or hazard in which one does not know whether it will come to be or not contradicts Islam and Sharia Law.

[5] The ABI is currently working with UNLOCK on this issue. ABI is planning to produce good guidance for its members in Quarter 4 of 2009.

The third element contravening Islamic principles is Maysir, which is the chance of total loss to one party in the contract. The insurer himself does not share in the pooled-risk of the insured, which in turn is covered by the premiums.

In light of the non-Sharia compliant nature of mainstream insurance a form of Islamic insurance called Takaful has been developed (Box 2.2).

Box 2.2: Takaful – Sharia compliant insurance

In response to the non-compliance of mainstream insurance policies with Islamic principles, alternative, Sharia compliant insurance policies have been developed. These have been distributed and serviced under the term Takaful, which means "guaranteeing each other". The first Takaful insurance company, Sudan Islamic Insurance, was established in 1979 in Sudan. Today Takaful insurance is available in over 40 countries (Clarke et al, 2005).

There are several traits of Takaful insurance schemes that make them compliant with Islamic principles. Participants (read policy-holders) pay contributions to the company managing the scheme, which are fully or partially donations. The donations are used to pay indemnity when the insured risk occurs. The fact that payments are seen as donations is crucial given that uncertainty is allowed for donations. Also, uncertainty is also allowed between participants with similar interests. Any surplus, after having paid indemnity and expenses of company managing fund is to be shared among participants.

The company managing the scheme must have a Sharia Supervisory Board or committee which is "empowered to review the [insurance] company's practices, contracts, transactions and operations" (Anwar, 1994, p.1315). Premium income can only be invested in Sharia-compliant activities, in other words it does not involve investing in alcohol-related or gambling.

Source: Anwar (1994); Clarke et al (2005)

2.6. Insurance schemes for the financially excluded in UK

As we have seen in the preceding section, the access to appropriate insurance policies in the UK have been restricted by the deprivation and the consequent neglect of the low-income market segment by the insurance industry. In response to this market failure, charities, social housing landlords, insurance brokers and insurers have developed two types of schemes to improve the access to insurance products among consumers with restricted access.

First, charities have marketed and aided low-income households in applying for mainstream insurance products. This approach has been based on the realisation that low-income households and a proportion of the elderly have often found themselves at a disadvantage in the market place for financial products. Low levels of technical competence and confidence (especially in IT and computing), and often a lack of understanding of financial products, have hampered these consumers' ability to take advantage of offers on insurance products. After the debt advice charity Christians Against Poverty (CAP) closed their insurance broker service Options for Life in March 2007, the authors are not aware of any schemes of this particular design in operation.

Second, social housing landlords and charities have marketed insurance products that have been tailored to the demand of financially excluded consumers. The rationale behind these schemes is that the products available in the mainstream insurance sector are unsuitable for low-income households and the elderly. Specifically, there have been five aspects of mainstream HCI warranting the design of policies adjusted to the needs of the financially excluded:

- ***Minimum sum insured:*** As both households living on low incomes and disadvantaged elderly often have few assets they tend to prefer low minimum sums for insurance. Yet a search of HCI on price comparison sites reveals that the minimum sum insured for insurers start at £10,000 and some insurers set a minimum sum of as much as £20,000.
- ***Excesses:*** For most policies, the policy holder will have to pay an excess in relation to claims. This may be especially problematic for households living on a low income, because they are likely to make relatively small claims.
- ***Payments methods:*** Most insurers prefer that their policy-holders pay for policies via direct debit on a monthly basis, whilst research shows that low-income consumers often prefer to pay on a weekly or bi-weekly basis in cash.
- ***Age limits:*** Many insurers, particularly in the case of car, travel, life and to a lesser degree HCI, will not insure people above a certain age.
- ***Affordability:*** High minimum sums, penalties for cash payments and differential pricing based on postcodes may often make insurance policies unaffordable for many financially excluded consumers.

UK national government policy in promoting access to insurance among the financially excluded has mainly centred on increasing the outreach and uptake of social housing tenant insurance schemes. Part of the remit of the Financial Inclusion Champions – a programme run by the DWP to build and coordinate partnerships to promote financial inclusion – is to work with housing associations and social landlords in particular geographical areas to increase the supply and take-up of appropriate home contents insurance schemes.

2.7. International microinsurance schemes for the financially excluded

Internationally, the microfinance and credit union sector has been the main conduit for insurance policies for the financially excluded. Microfinance institutions (MFIs) and credit unions have provided formal insurance products to low-income households for decades and for semi-formal insurance products in the form of pay-outs linked to community savings schemes, as discussed below, for much longer than that.

There are probably in excess of 100 MFIs distributing insurance policies to millions of low-income urban and rural households in Africa, Asia, Latin America and Europe. The Indonesian MFI Bank Rakyat Indonesia alone provides life insurance to over 2.5 million clients. The around 40 MFIs within the network of Opportunity International (OI) serve 3.3 million low-income households in 10 Developing countries.

To date, most of the MFIs have focused on the provision of credit life insurance – an insurance product which covers the loan repayment in the event of the death of the borrower – and term life insurance, which compensates a given number of family members in the event of the death of the policy holder.

The preference for these products seems to have been borne out of operational considerations, and of the needs and preferences of the target customers of MFIs. On the operational side, life and credit life insurance are relatively easy to administer, especially if they are compulsory, and there is a limited risk for moral hazard[6] (Churchill et al, 2003). Conversely, the drawbacks of property insurance, namely more resource-demanding administration and greater likelihood of fraudulent claims

[6] Brown and Churchill (1999, p.22) define moral hazard as "dishonest, careless, or indifferent behaviour by a policy-holder that increases the chance of a loss (e.g. negligent maintenance of a sewing machine because it is insured)"

(Brown and Churchill, 1999), may have contributed to discouraging the extensive distribution of such products through the microfinance sector.

On the demand side, in the absence of a well-developed public safety network, life insurance products protecting the rest of the household in the event of the death of the head of the household have been proved popular low-income households. This is perhaps particularly the case in Southern Africa, where there has proved to be a considerable demand for life insurance covering funeral costs among low-income households (Leftley, 2005; Leftley; 2006).

The provision of insurance products through the international microfinance sector has principally occurred through four models (Brown and Churchill, 2000; Leftley, 2005):

- ***Mutual aid societies*:** Under this scheme risks are pooled and absorbed by an MFI or membership based financial institution. This is essentially a savings scheme with a pay-out to customers affected by a specific event, most commonly death. In most cases this scheme will involve compulsory savings a certain proportion of which will be paid out to affected households. Whilst the combination of savings and protection in many cases has proved popular among its customers (Leftley, 2005), such a scheme has proven to have several drawbacks. It is vulnerable to covariate shocks and there is no viable institutional form to allow it to carry the risk on its balance sheet (Leftley, 2005). Moreover because of difficulties to price the product, owing to the relatively small number of clients of most MFIs, such schemes often end up being over-priced and not good value for customers (Leftley, 2005)
- ***Provider model:*** Many have warned against MFIs adopting this model (e.g. Brown, 2002; McCord, undated; Churchill et al, 2003). Insurance provision requires considerable institutional and technical capacity. It is inadvisable and often not allowed to mix insurance provision with financial services as any losses from insurance provision could endanger deposits (McCord, undated).
- ***Partner-agent model:*** This is probably the most common model used by MFIs for insurance delivery. In many cases, by working with established insurers MFI may actually offer better-value for their clients than they would have been able to on their own (Leftley, 2005).
- ***Global agency model:*** A fourth model is establishing an independent microinsurance agency which can work and offer insurance products to appropriate partner organisations, including MFIs, generic groups (e.g. unions, religious organisations) and bonded sub-agents (Leftley, 2005). Opportunity International has been operating such an agency since 2005.

2.8. Summary

Low-income household in the UK are especially vulnerable to income shocks, as they are at greater risk of crime, illness and premature death. They are also often in a weak position to sustain and increase their income through the labour market. In addition, there are growing economic, fiscal and political pressures for households and individuals to finance life-stage and life-cycle costs. Yet, despite their vulnerability, low-income households and tenants are much less likely to be insured compared to the overall population and particularly compared to the middle to higher-income groups.

These households' access to insurance is restricted by the social and economic characteristics of low-income households as consumers: their tenancy status, low income and peripheral position vis-à-vis financial services makes these consumers unlikely to be targeted by cross-selling from the insurance and bank industry. Also, as financially excluded or marginalised consumers living on a low income, they are likely to demand policies serviced by cash, with no excess and small minimum sums insured, which are not widely available in the mainstream market.

In the UK, attempts to provide insurance to these households have been run by charities and social housing landlords. Internationally, MFIs have been spearheading provision of insurance to the financially excluded.

3. Methodology and research design

3.1. Research objectives and methodology

The main objective of this research project is to establish whether CDFIs can be effective conduits for insurance products targeted at the low-income, financially excluded households. In turn, the effectiveness of CDFI provision of insurance depends on three factors:

- Is there a sufficient latent demand among CDFI clients and target clients to justify a CDFI insurance scheme?
- Are existing insurance schemes aimed at the financially excluded sufficient to meet this demand?
- Do viable models for the delivery of insurance products to excluded households through UK CDFIs exist?

In order to meet the research objectives set out above we developed and applied a multi-faceted methodology (Table 3.1).

Table 3.1: Research objectives and methodology

Research objectives	Methodology
1. Is there a sufficient demand justify a CDFI insurance scheme?	• Focus groups • Literature review
2. Are existing insurance schemes sufficient to meet this demand?	• UK case study research
3. Do viable models for the delivery of insurance products to excluded households through UK CDFIs exist?	• International case study research • Legal framework review

3.2. Focus groups

Ultimately, the feasibility of a new product hinges on the willingness among actual and potential CDFI clients to purchase such a product. To explore the demand for insurance products among target customers, we conducted five focus groups with 31 target clients and actual clients participated (Table 3.2).

Table 3.2: Focus groups

Date	Venue	Group	Participants
20th November	Lower Kersal Community Centre, Salford	Low-income CDFI target clients	7
20th November	Lower Kersal Community Centre, Salford	Low-income CDFI target clients	6
1st December	Somali Brawanese Cultural Centre, London	Somali Brawanese community	3
8th December	Wild Goose Resource Centre, London	Zimbabwean community	10
15th January	Preston Moneyline, Preston	CDFI clients	5
Total number of focus group participants:			**31**

The focus groups explored four topics linked to insurance (the completed Topic Guide can be found in Appendix C):

- ***Attitudes towards insurance and insurers:*** Trusting that the insurer will pay out if the event against which the policy-holder is insured occurs is important. Hence we explored focus group participants' attitudes towards insurance products and insurance companies.

- ***Experience with insurers:*** Past positive and negative experiences with insurance companies may influence a household's decision to take out insurance or not, even if it is not their own experience. Thus we asked the participants of their experience and that of their friends and relatives with insurance policies and companies.
- ***Possession of insurance:*** We asked focus group participants if they were currently insured and if they had been insured in the past. We also discussed reasons for having and not having insurance.
- ***Ideal protection products and suppliers:*** At the end of the focus group, the participants were asked to describe their ideal insurance product. This included cover, how they would prefer to buy the product (i.e. doorstep, face-to-face), service it (i.e. direct debit or cash) and who they would prefer to supply it (e.g. landlord, third sector lender).

3.3. UK case study research

As part of the research project we conducted case studies of three insurance schemes aimed at the financially excluded in the UK:

- ***Options for Life:*** This was an insurance broker for term life insurance to financially excluded consumers started by and marketed through the debt advice charity Christians Against Poverty.
- ***Age Concern Insurance:*** Age Concern has been marketing and selling a wide range of insurance products specifically designed for the elderly since the 1980s.
- ***Social housing landlord insurance:*** Social housing landlords have been delivering HCI policies targeted at and specially designed for social housing tenants for several decades. The case study of social housing landlord insurance was generic and did not focus on one specific scheme.

The review of UK schemes for the delivery of insurance products to low-income households is an important part of the study for two reasons. First, they offer an indication as to the extent to which existing initiatives are sufficient to cover the demand and need for insurance among low-income households. Second, such a review can reveal challenges in working with the lower-income market segment, as well as good and bad practice in delivering insurance.

The case study research focused on four aspects of the model:

- ***Affordability:*** This is an important aspect because financially excluded households have limited resources to pay for insurance and yet there may often be greater costs associated with delivering insurance to this segment of the population (face-to-face delivery, potentially greater risks of claiming etc).
- ***Marketing and take-up:*** The ultimate litmus test for the provision of insurance to financially excluded households is the absolute and relative take-up and the dent it makes in the proportion of uninsured households.
- ***Additional support and discontinuation:*** These are important aspects to consider, especially because discontinuation on some insurance products can lead to claw-back of premiums paid in and therefore threaten the sustainability of a scheme.
- ***Sustainability:*** As far as possible we also tried to ascertain the extent to which the schemes were financially sustainable. This is important because it would be difficult for CDFIs to take on a loss-making insurance provision model.

The case study research was based on telephone and face-to-face interviews with relevant technical staff and managers of the insurance schemes (see Interview Guide in Appendix A). Moreover, where possible we consulted and reviewed studies, consultancy reports, business plans and annual reports.

3.4. International case study research

We also conducted case study research on five international MFIs that deliver insurance. Drawing on the experience of the international microfinance sector in providing insurance for the financially excluded is an important component of the research. Because many MFIs have already incorporated insurance provision alongside microcredit and savings products, their experience may provide a valuable insight into the potential institutional impact (human resources, structures and processes) of such a move for a community finance organisation.

However, selecting international microfinance institutions appropriate for comparison and conducive for identifying best-practice can be challenging. The market place and the regulatory framework within which they operate may often be markedly different from that of the UK CDFI sector. Therefore, we developed a set of criteria guiding the case study selection:

- ***Partner-agency models:*** The MFI in question would have to operate in partnership with an insurer rather than offering insurance on an in-house basis. Much of the lessons from in-house schemes are in areas such as reinsurance, actuarial science and risk management, which will be not of much use for CDFIs as any feasible model in the UK is likely to build on a partnership model.
- ***Non-member based MFIs:*** We decided only to focus on non-member, non-mutual MFIs. This was partly because member-based MFIs, such as credit unions and cooperatives, are often regulated in a very different way from non-member based MFIs, and in some cases, they are able to offer insurance products under the regulatory radar as member benefits (Churchill et al, 2003).
- ***Non-compulsory products:*** As far as possible we opted for MFIs delivering voluntary insurance products. Although compulsory insurance policies are administratively less onerous, less costly and often bypass problems such as adverse selection, CDFIs are unlikely to offer such products because it would contradict the goal of empowering their clients to access financial products corresponding to their particular needs.
- ***Innovative practices:*** Emphasis was also put on the development and application of innovative practices. Especially we looked for innovation making policies more affordable, reducing costs in distribution and marketing, and in reducing risks.
- ***Geographic spread:*** As far as possible, we also aimed at achieving a good geographic spread with representation of most parts of the world. However, geography was a secondary concern to the potential institutional lessons for CDFIs.

In addition to these criteria, we were also dependent on the availability of documentation and on the willingness of MFI management and staff to participate and contribute to the research project.

After an extensive review of existing web-based documentation and information, we conducted case studies of five MFIs (Table 3.3).

Table 3.3: International MFI case studies

Institution	Insurance products	Selection rationale
ADIE, France	Car insurance Home multiple risk Professional multiple risk Public liability insurance	Rare example Developed country MFI delivering insurance
CETZAM, Zambia	Term life insurance Property insurance	Rare example of property insurance offered by an MFI
Pro Mujer, Bolivia	Credit life insurance Life insurance	Combines insurance with risk-reduction interventions
MIA, Global	Credit life insurance Term life insurance Crop insurance	Innovative agency model allowing for multiple risk-carriers and delivery channels
WWF, Colombia	Term life insurance	Rare example of voluntary life insurance

The case study research was based on telephone and face-to-face interviews with relevant technical staff and managers of the insurance schemes (see Interview Guide in Appendix B). Moreover, where possible we consulted and reviewed studies, consultancy reports, business plans and annual reviews.

3.5. Regulatory framework review

Ultimately, the ability to provide insurance policies through CDFIs depends on whether such a scheme would comply with current legislation. The review focused on the possibility of exemption of CDFIs from relevant legislation (as is the case with social housing landlords) and on the potential regulatory requirements for CDFIs if they were to distribute insurance as a) an introducer, b) an agent and c) a broker.

As part of the regulatory framework review in-depth interviews were conducted with representatives of the Financial Services Authority and relevant regulatory documentation.

4. Demand for insurance products among CDFI target clients

This chapter presents the findings of the focus groups concerning possession of and attitudes towards insurance conducted with Somali Brawanese, African Community Partnership, CDFI target clients and actual CDFI clients. The discussions and many of the questions guiding the discussion centred mainly on HCI, but focus group participants also discussed other types of insurance, such as extended warranty often sold with electrical goods, mobile phone insurance, life insurance, travel insurance and car insurance.

The chapter is organised into seven sections. The two first sections explore the attitudes towards and experiences respectively of focus group participants of insurers. The third looks at the possession of insurance and the fourth explores reasons for having and not having different types of insurance. The fifth looks at how households cope with external shocks in the absence insurance, while the sixth section explores aspects of ideal protection products in the eyes of the focus group participants. Finally, we discuss the implications of the findings for CDFIs wanting to deliver insurance.

The focus groups revealed that the participants generally held negative views of insurance. This was especially the case for the participants with bad experiences. The majority, 23 out of 31, of the participants did not have HCI for reasons of cost, bad experiences and that they had yet to consider it seriously. The ideal protection product was simple, affordable and comprehensive and was sold face-to-face and with the option of paying in cash.

4.1. Attitudes towards insurers

The attitudes that households hold towards and the experience they have had with insurance and insurance companies can play a role in determining whether people take out insurance or not. Research suggests that a poor reputation in settling claims can severely dampen demand for insurance products (Leftley, 2005). Indeed, the findings presented in this chapter indicate that both bad experiences and negative attitudes shape people's propensity to take out HCI.

When asked about what they immediately associated with insurance, participants' reactions ranged from fairly positive ('a safety net') or neutral (e.g. defining insurance) to outright negative ('rip-off' and 'a con'), as illustrated by these comments:

> *"Are they going to cheat you when you try and claim?"*
> Male CDFI target client

> *"I just think it's a safety net really. It is a necessary evil unfortunately, I think, in today's climate."*
> Female CDFI target client

> *"Mostly we think about insurance for the house because that's the main thing that you have to have"*
> Male, Somali Brawanese community

> *"The charge that you pay to have peace-of-mind insurance that your product or what you own is working for the next few years."*
> Male, Somali Brawanese community

The majority of the immediately expressed perceptions and attitudes were negative:

"Somebody wanting something for nothing. You pay them a lot of money and most of the time you're not getting anything back."
Female CDFI client

"I think the first thing that comes to mind is rip-off"
Female CDFI target client

The negative perceptions of insurance and insurers appeared to be rooted in three criticisms.

4.1.1. Disagreement with principles of insurance

For some focus group participants their dislike of insurance arose from a disagreement with the principles of insurance. This sentiment was particularly strong among focus group participants with the African community. The aspect of insurance found to be most difficult to accept was that policy-holders would not get this money back unless they made a claim on their policy:

"House insurance as well. If you don't pay, you lose your money. You pay certain amount of money. If you stop paying you lose."
Female, African community

"I don't like insurance. I paid £399 – £20 a month – and when I stopped paying it I lost the money. It isn't worth it."
Female, African community

"And if you don't claim, I think they should give you...half or a quarter of that money you've paid that year"
Female African community

"My mother…stopped [paying her life policy] and the [insurance company] did not give her back the money she had paid in. So I don't think what the insurance companies are doing is right"
Female African community

4.1.2. Distrust in insurers' handling of claims process

Many focus group participants did often not believe that insurers would pay out if they were to claim. Insurers, they believed, would use loopholes and fine print to avoid having to pay out:

"There are so many loopholes in the insurance that if one thing is wrong, that's it: you lose all your money."
Female, African community

"The other thing I worry about insurance is what's the loop holes they've got…You're claiming this: Oh you're not entitled to that."
Male CDFI target client

"All the small writing. You normally don't know what you're putting yourself into"
Male CDFI target client

This is not an unexpected finding. Market research conducted for the Financial Inclusion Taskforce revealed high levels of distrust in insurers in particular regarding settling and paying out claims (IPSOS Mori, 2007)

4.1.3. Biased and unfair premium-setting

Many focus group participants expressed dismay at the premium setting of insurers which they believed were biased against low income areas and vulnerable households. In particular, it was felt that insurers would either not insure or demand very high premiums of households in certain postcodes, even if the household lived in a safe area within the larger postcode area:

> *"If you have any mental or physical disabilities, they'll consider you a high risk and they won't cover you anyway. If you're very vulnerable, they won't cover you and that's when you need the help"*
> Female, African community

> *"If you live in a really bad area, it's more expensive"*
> Female CDFI target client

> *"That brings it back to your insurance being about what your postcode is…why should someone who lives in Worseley, say, get cheaper insurance than somebody who lives in Salford."*
> Female CDFI target client

One male CDFI target client had filled in a form for HCI through his housing association, but he had since not heard from them. He thought that they did not want to insure him because of the area he lives in.

> *"What I think has happened is that I've sent off and put my area down for the insurance and what they've done is that they're cherry picking…instead of insuring anyone that wants they've gone: 'Well that's a good area let's insure them.'"*
> Male CDFI target client

In areas at risk of flooding, many focus group participants expressed their dismay that insurers penalised people in flood areas even after measures had been taken to reduce the risk of flooding:

> *"We…have the problem of the flood. We've had flood barriers build so we know we're not going to flood, yet the insurance company use that as an excuse to put the policy up…So why do they class us as living in a flood plain? We don't anymore."*
> Female CDFI target client

Moreover, some participants did not believe that insurers had paid out to policy-holders affected by recent flooding in the area:

> *"But what about all the people who have been suffering through the flood and everything? They've never been paid out, have they? And why is that? Because it is obvious they've been flooded out."*
> Female CDFI target client

4.2. Experience of insurers

Though important, negative attitudes in themselves may not be sufficient to explain non-possession of insurance policies. Indeed, negative attitudes did not automatically translate into non-possession of HCI, as several participants held negative views of insurers but were still insured. Our findings suggest that people's experiences were more important in determining their propensity of having insurance. That said attitudes and experiences may often be related, as negative attitudes towards insurance and insurers appeared to be more prevalent among participants who felt they had been unfairly treated by their insurance companies. The discussion in the focus groups focusing on participants' experiences with insurers centred on the experience of cancelling policies and of making claims on policies.

4.2.1. Experience of cancelling policies

Participants' experiences of cancelling or switching a policy were exclusively negative. In one case, a female CDFI target client had to pay £40 in cancellations fees for her car insurance, even though she insisted she had not been informed about this when she signed the policy:

> *"I tried cancelling [my car insurance] and they said I had to pay an extra 40-odd pound just to cancel it. Thought it was a bit of a rip-off and a con. It was not put down in any writing anywhere.*
> Female CDFI target client

In another case, the car insurer of a male CDFI client would not reimburse parts of the premium payments even after he had paid the cancellation fee.

> *"When you're buying insurance they're all nice. When I…cancelled my car insurance because I was getting ripped off…They don't wanna pay [what they owe me in paid premiums]."*
> Male CDFI client

4.2.2. Experience of claiming on policies

Participants' experiences of claiming on policies were mixed. Some participants had positive experiences of claiming. One female CDFI target client had made a successful claim on her HCI after her clothes stolen from clothing line:

> *"I [made a claim]. I got my washing pinched of the line. All my clothes…I just filled the form in and they sent me the money for it"*
> Female CDFI target client

Similarly a male CDFI client making a claim for accidental damage on a carpet:

> *"I made a claim 10 years ago for accidental damage to the carpet and that went through all right…They changed the whole lot"*
> Male CDFI client

Also, some participants had made successful claims on mobile phone insurance and extended warranties:

> *"I dropped [the phone] by accident. It's damaged. I can't use it anymore. I send it back. They sent me a new one."*
> Female African community

> *"They fixed my phone [twice]. Because once I dropped it in some water and the other time…I think twice I dropped it in some water."*
> Female African community

However, many of the experiences of making claims on insurance policies had been negative. In most cases, the experiences of claiming on a policy were negative because their claims had been rejected. These were especially prevalent among participants at the focus groups with the African community. Three of the ten participants had made unsuccessful claims on their policies. One participant had attempted to claim on her insurance after her car was stolen:

> *"My car got stolen so I wanted to claim. I was only the named driver on the policy…So I claimed and [the insurer] told me that I couldn't claim, my aunt would have to claim and then when she claimed they found some other rule for why they couldn't pay out"*
> Female African community

Two participants' claims on their policies for burglary and flood damage respectively were also declined:

> *"I [had] home contents insurance some years ago. A thief broke into my house and they stole DVD…When I called [the insurer], they said: "I'm not covering all that." So they didn't give me anything"*
> Female African community

> *"I had a flood and I tried to claim on my insurance and: 'No, it doesn't cover."*
> Female African community

Moreover, one participant had even been victim of outright financial fraud:

> *"I paid £250 for life insurance and I realised that the…company is not in existence and my money is gone."*
> Female African community

In some cases, participants felt that even if their claims had been successful, the pay-out had been insufficient to replace the lost or damaged items. In one case, a female CDFI target client had been paid £250 for accidental damage to a sofa she believed was worth £1,000:

> *"We had to claim on [our HCI]. Just once…But when they came out, my couch was worth £1,000, they'd give me like £250. I thought: 'Well it's not going to buy me a new sofa.' You could not have repaired it."*
> Female CDFI target client

Unsuccessful claims appeared to discourage continuation and to, as we discuss in Section 4.4, make participants less likely to consider taking out insurance again. All the participants who had either made unsuccessful claims or who had received insufficient pay-out from their HCI discontinued their policy. The participant who made an unsuccessful claim on her car insurance changed to a different provider.

The way in which claims were processed also contributed to people's negative experiences with insurance. One female CDFI target client had made a claim on her travel insurance and disliked the fact that the insurer replaced the item rather than paying out cash, as illustrated by the exchange below:

> Female CDFI target client 1: *The only [claim settlement process] I didn't like was when we went with [insurance company name]…They don't actually give you money. They replace the goods, which is not that bad…But I just felt it was a little bit…*

> Female CDFI target client 2: *Patronising!*

> Female CDFI target client 1: *Yeah, because they don't trust you to give you the money.*

Female CDFI target client 2: *At the end of the day you don't pay your insurance in vouchers so you shouldn't be expected to be paid out in vouchers.*

Another female CDFI target client disliked the fact that the insurer sent out an investigator to verify her claim for accidental damage on her sofa:

"I was a bit disgusted. The fact that they had to send someone out to reconstruct how it happened to make sure that [I had not done it on purpose]. As if you're going to do that."
Female CDFI target client

4.3. Possession of insurance

The extent of insurance ownership was uneven and depended on both the type of policies and on the household in question. All participants who owned a car also had a car insurance policy, which is not very surprising considering it is a legal requirement for car ownership and usage. Only around 5% of vehicles are being driven without valid insurance (Greenaway, 2004) compared to 25% of households without HCI.

In total, 8 out of the 31 focus group participants had HCI. These people were, with one exception, home owners and they were generally older households without children. Six participants had held HCI policies in the past and two past policy-holders were currently in the process of getting a new policy or planned on getting a new policy in the future. This means that 17 focus group participants were currently uninsured and had never had HCI in the past.

This is in line with national statistics and market research (e.g. IPSOS Mori, 2007; ABI, 2007). Home owners are more likely to take out insurance, partly because they are more likely to be targeted by cross-selling of financial products in relation to acquiring a mortgage or a structural insurance policy (Whyley et al, 1998).

Among participants who did not have HCI, several took regularly out damage liability cover or extended warranty with electrical goods. Participants taking out such cover often felt it was a practical way to insure some of their more expensive items in an affordable way. Participants from the Somali Brawanese community seemed especially likely to take out such cover. We explore this in further detail in the next section.

Only three of the focus group participants had life insurance, though two focus group participants expressed an interest in acquiring such a policy. The low proportion of participants with life insurance can partly be explained by the fact that most of the home owners were not the main bread earners.

4.4. Reasons for not having home contents insurance

We now turn to the reasons for why participants did not have HCI. As we discuss below, there was often not a single reason, but rather several reasons for why an individual did not have HCI. As far as possible, we try and identify the most important ones. Focus group participants mentioned three main reasons for not having insurance.

4.4.1. Too high premiums

Too high premiums were often mentioned as a barrier. Specifically, five participants identified costs as the single-most important reason for not having HCI:

"You can't afford to be insured."
Female CDFI client

"No matter how much we try, it's just too expensive"
Female CDFI client

In particular, for several participants premium payments were not a priority as they were just keeping on top of the other bills and costs:

I've just never been able to afford the insurance. There are other things we are paying which are more important. I just don't bother with it.
Female CDFI target client

I just can't afford it so I don't see the point. I've got more important stuff, like food bills…as well as gas bills. That's one less thing to worry about.
Female CDFI target client

For two participants, life insurance was a higher priority than HCI. One female CDFI target client had already taken out a life insurance policy with her building society. She felt that life insurance was more important than HCI because it would provide for her children if she should pass away.

I'd rather have my kids be left comfortable than bother whether a telly get's robbed…because that's stuff and I could do without that if I can't afford another one.
Female CDFI target client

Another female CDFI target client commented that she would consider life insurance a greater priority:

"I've thought more about life insurance [than HCI] to be honest. My husband's dad recently died and he's left everybody enough to be comfortable with. If anything happened to me or him [my husband]…it would be nice to leave something for the kids. I think that would be more of a priority for me."
Female CDFI target client

Although high costs were frequently mentioned as a reason for not having insurance during the focus groups, the findings suggest that the participants may not be as cost-sensitive as they appear. The clearest indication of this was the extensive use of extended warranties, damage liability cover and mobile insurance even though these are often costly and of questionable value.

For example, the monthly premium payments for mobile phone insurance policies ranged from £4.50 to £6.99. The policy-holder would also need to pay an excess of £25. If a policy-holder makes one claim in the course of a year with the cheapest policy, it means that the person will have paid a total of £79 to replace their phone. Under the most expensive policy, the policy-holder will have paid £120.88 to replace his or her phone. One could question the value of such policies unless the policy-holder makes several claims in the course of the year.

Similarly, damage liability covers sold by instalment credit stores are typically very costly, which households without HCI often have to get. For example, Brighthouse charges £0.82 per week (£127.92 over standard 156 weeks repayment plan) in damage liability for a fridge freezer of a value of £457.30.

Yet eight participants had recently taken out extended warranties with their goods, one had taken out a damage liability and three had mobile insurance policies.

Moreover, the policies were generally viewed favourably by the people who had these policies:

> *"I've taken out insurance policies. I've taken out one for my camera. Basically I bought it in 2006 and it was £180. 5-year insurance was £50…I was going on holiday the next day so I needed a camera and I wanted to insure it"*
> Male, Somali Brawanese Community

> *"It's only 6.99 a month and it's just like a cover for a phone. Because sometimes you can't afford to buy a new phone. Very rarely can you get a phone for £25 [the excess on the policy]. You spend £25 to get a new phone. It's better than not having no insurance…"*
> Female African Community

For participants, they constituted value-for-money as the events covered (e.g. breakdown, and damage or loss of mobile phone) were seen as likely to occur with a relatively high frequency:

> *"I have [extended warranty] for my Hoover. I've had that many Hoovers that broke so I just took [extended warranty] with the last one that I bought."*
> Male CDFI client

> *"I do [have a mobile phone insurance policy]. It's £4.50 a month. You either loose them [mobile phones] or they break. They're only small"*
> Male CDFI client

> *"I got kids at home. Things like microwave or house phone. They always drop it on the floor and you constantly keep buying the phone every month…After three or five months it's damaged."*
> Female, African community

Further, participants found the certainty of claims being met especially appealing with mobile phone insurance policies and extended warranties:

> *"I dropped [my mobile phone] by accident. It's damaged. I can't use it anymore. I send it back…They sent me a new one."*
> Female African Community

> *"It's good. I've got mobile phone insurance. I pay every month. It's £7. If they can't give you the same phone, they'll send you a new phone. Or if you lost it, just go to the police and they'll send you the new phone"*
> Female African Community

4.4.2. Distrust of insurers and claims settlement process

Another reason for not having HCI was a deep distrust of insurers, especially regarding paying out for claims. For around ten participants this was the main reason for having an HCI policy. For the focus group participants with the African Community in London, this distrust was especially apparent. This distrust was to some extent linked to a more fundamental disagreement that many of the African focus group participant seemed to have with the principles of insurance.

As discussed in Section 4.1, the participants disliked the fundamental principles of insurance. In particular, they disliked the fact that they would only get back their premiums if they made a claim. This is not surprising. Micro-insurance policies that have an investment or savings component have proven particularly popular in African and other Developing countries (Leftley, 2005).

That said for the uninsured households the distrust of insurers was often secondary to cost or other factors. Above all, the distrust of insurers affected those participants with bad experiences of claiming on their HCI. All three participants who had either made unsuccessful claims or who had received insufficient pay-out from their HCI discontinued their policy.

One female CDFI target client had been paid out insufficient to buy a new sofa following accidental damage to it. In addition, she felt criminalised by the insurance company for rightfully claiming for an event she was insured against. Ultimately it discouraged her from getting a new policy when she moved house:

> *"Basically because of that [incident] and when we moved we just didn't renew it. My heart wasn't with it. I was a bit disgusted. The fact that they had to send someone out to reconstruct how it happened to make sure that [I had not done it on purpose]. As if you're going to do that."*
> Female CDFI target client

The two participants who had experienced rejection of claims on their HCI policies for flood damages and burglary discontinued their policies and had never considered taking out a new policy:

> *"I had a flood and I tried to claim on my insurance and: 'No, it doesn't cover.' So I said: 'That's it. No more money'"*
> Female African community

> *"Thief broke into my property and I called the insurance and they said they didn't cover that area. So I stopped paying them"*
> Female African community

4.4.3. Had yet to consider or make enquiry for insurance

The third and final reason for not taking out HCI raised by participants was that they had yet to seriously consider or make enquiries for insurance policy. For some participants, the reason for not making enquiries or taking out an insurance policy was a lack of understanding of insurance products and the process of taking out a policy:

> *"I thought about getting the house insured but I don't know how you go about it"*
> Female CDFI target client

> *"We don't understand enough about insurance. We don't understand the ways to go about it properly: where to go, who to get in touch with."*
> Male CDFI target client

> *"It's not like I really want to buy house insurance right now, but I want to know how it works"*
> Female, Somali Brawanese Community

> *"So how does house insurance work?"*
> Female, Somali Brawanese Community

For other participants, they had yet to take out a policy because they had moved house. In other words, their non-possession of insurance was a transient state:

> *"I've just not got around to it because I've only just moved into that house. I've only been there for a few months. But every house that I've lived in, I've had it. So I probably will get it once I get settled."*

Female CDFI client

"I moved from Blackpool…three years ago. I just haven't got around to it. I just didn't feel I needed it."
Male CDFI client

4.4.4. Other reasons for not having insurance

In addition to the reasons discussed above, such as negative perceptions, bad experiences and cost, we also prompted participants about factors found to be important in other studies. For example, the findings of research suggest that a barrier to access to insurance is the sector's insistence on or preference for electronic means of transfer for taking out and servicing insurance policies (e.g. Ipsos MORI, 2007; Whyley, 1998). However, electronic transfers and direct debits were not mentioned as barriers unless prompted. Even when prompted it provoked little discussion, though some participants preferred to pay for goods and services in cash.

Similarly, in contradiction of other studies, we found that very few participants stated that their home contents were not valuable enough to warrant taking out an insurance policy. Similarly, none of the participants expressed that, in the event of loss or theft of possessions and furniture, they would be able to replace them at a lower cost. These factors are frequently cited in market research (e.g. Ipsos MORI, 2007). Nevertheless, some participants stated that an HCI policy could not replace the items of affectionate value. Ultimately, some participants felt, one could manage without some items for a period of time.

Finally, among the three Muslim participants, the issue of incompliance of insurance with Islam and Sharia law was not mentioned unprompted. The Somali Brawanese community, who are practicing Muslims, were unsure of whether they would be allowed to take out conventional insurance under Islam. They thought it had been discussed by scholars and that it depended on the scholar as indicated by this exchange:

Male Somali Brawanese: *"The thing with Muslims and Islam is quite a few people don't have that much knowledge and in Islam there are a lot of differing opinions. Some things are clear-cut: prayer five times a day, fasting…With other things…"*

Female Somali Brawanese: *"It's more like different scholars different opinions"*

One Somali Brawanese male thought that insurance was not a major concern for the Somali Brawanese community:

"Some scholars think very intellectual. Others are more practical saying: 'Look, we're in the 21st century.' This is how we interpret it."
Male, Somali Brawanese Community

In sum, the 23 participants without HCI mentioned numerous reasons for not having an HCI policy. Five participants did not have HCI because it was too expensive and because they felt they had more pressing costs. Ten participants stated that they did not trust insurance companies enough to warrant taking out an HCI policy. The remaining eight had not got around to it. Payment methods were not mentioned by participants unless they were prompted and very few thought they did not have enough assets to justify taking out an HCI policy.

4.5. Alternative coping strategies

Given that the majority of participants were uninsured, part of the discussion also centred on how they would cope with external shocks in the absence of HCI or other relevant insurance policies. Very few focus group participants appeared to have a conscious strategy or means to cope with unexpected events, such as fire, burglary or other external shocks. When asked what they would do in the event of loss, theft of or damage made to their belongings, most participants stated that they had no viable means of coping:

> *"Apart from what be insured from [landlord]. The actual contents would just…You would just have to take the loss wouldn't you?"*
> Female CDFI client

> *"Lose everything"*
> Male CDFI client

> *"I'd be devastated"*
> Female CDFI target client

One female participant at the African community focus group did not even want to consider such a possibility, because ultimately there would be nothing she could do to cope:

> *"I wouldn't want to think about it, because that's extra pressure on yourself. There's nothing I can do. If I loose those things I just have to give thanks that I don't loose my life or my children, because that's all that matters, everything else is material"*
> Female CDFI target client

One participant thought that the government would come to the aid of uninsured households in the event of flood or other natural disasters:

> *"If flood was to happen, people that have got house insurance claim on their house insurance, but the government would help anyway, wouldn't they?"*
> Female CDFI target client

There were three ways in which respondents would cope with external shocks. First, some respondents would rely on help and assistance from family members.

> *"I'd phone my mum"*
> Female CDFI target client

The nature and magnitude of help and assistance from family members was not clear and ultimately very few mentioned this possibility.

Second, in the event of a burglary, some participants stated that they would know the culprit and could take appropriate action. One male CDFI client had been burgled and, knowing the identity of the perpetrator, the participant went to the house of the person in question and retrieved the stolen items:

> *"I got burgled. I was told who did it…I went around to this guy's house and all my stuff was sitting in his stuff...I got the stuff back."*
> Male CDFI client

Similarly, a male CDFI target client would take similar actions if burgled:

"If somebody robbed my house, I'd find out who'd done it and went around to their house and take it back. Some always know who's done it, don't they? And I wouldn't be carrying it back myself"
Male CDFI target client

However, this was only raised as a viable strategy by the male participants. The other participants stated that even if they knew the culprit they would not be able to get their possessions back, as illustrated by this exchange:

Female CDFI client 1: *"You might know [the culprit], but accusing somebody is a different matter, isn't? You can't really go and…"*

Female CDFI client 2: *"Can I have my stuff back please?"*

The third and most common means of coping was to go without certain furnishings and gradually build up:

"It's not something that I couldn't live without. If it was my TV, it wouldn't bother me that much"
Female CDFI target client

"[I would do the] same as I do every day. Just manage. You just cope, don't you?"
Female CDFI target client

4.6. Ideal protection product

At the end of each of the focus groups we asked the participants to design their ideal product or service to protect their household. The participants were asked what the product would cover, how it would be sold and distributed, how it would be serviced and who would provide it. Most participants took ideal protection product to mean insurance so they discussed it in those terms. It is important to note that in this section we focus mainly on the uninsured because the insured participants had already managed to acquire a policy through mainstream insurance providers. Hence the CDFIs would not need to design a policy to comply with their needs as they are already being attended to.

4.6.1. Ideal cover

In the main participants wanted their ideal protection products to have a comprehensive cover. One exception was a female CDFI target client who wanted flexibility in insuring specific items:

"I think it should be like a pick and mix where you can decide yourself. So it's not just one package. Where you can take little bits from each one and make your own personal insurance package"
Female CDFI target client

The participants generally wanted comprehensive cover in the sense that it would cover all contents in the house:

"If it is a home insurance it means it covers the whole home regardless"
Female African community

"Your washing machine, TV…all of that"
Female CDFI client

"House contents and that's your most usable things you have all the time"

Female CDFI client

In addition to covering all contents, participants also stressed that they wanted any policy to be comprehensive, covering all eventualities:

"I think if you're doing life insurance it should cover everything and every eventuality. I don't want to hear that because I broke my neck for dropping down of a tree I can't get it. I think it should cover everything. So if it says everything that means if there is a flood, if a tree drops on your house…"
Female African Community

"If it is a home insurance it means it covers the whole home regardless of whether it is fire, flood, burglary, whatever…It will cover your home. It should do what it says without getting too technical, too much fine print"
Female African Community

Also, accidental cover was seen as crucial for most participants, especially for those participants with children:

"Especially with kids. They go around spilling drinks and that"
Male CDFI client

"Accidental is a big thing"
Female CDFI client

"Accidental, especially when you've got kids"
Female CDFI client

Furthermore, a number of participants also wanted an ideal HCI policy to cover breakdown. This was especially a concern among participants at the Somali Brawanese focus group, who also, not incidentally, made extensive use of extended warranty:

"I wouldn't like it separate. If is would be in just one bundle it would be excellent. For theft, breakdown…all these things"
Female Somali Brawanese community

"I like something to cover the contents of my house against theft, accidental and breakdown."
Male Somali Brawanese community

The preference for coverage to include breakdown and accidental coverage is probably a reflection that these eventualities were seen as more likely to occur than floods, fires or burglaries:

"All I'm saying is that our house has been lived in for 15 years now [and] it's never been flooded, there's never been a fire [and] we've never been burgled."
Male Somali Brawanese community

4.6.2. Ideal sales and servicing channels

In terms of purchasing or acquiring their ideal protection products, most participants preferred face-to-face interaction with the provider:

"Ideally I would like to buy a product face-to-face…At least you know what you're signing and you get documents right there rather than being posted to

you or sent by email. All the small writing. You normally don't know what you're putting yourself into"
Male Somali Brawanese community

"I think if you see somebody face-to-face, if you're not sure about something you can ask them about it"
Female CDFI target client

"And you can tell if they're lying"
Female CDFI client

However, some focus group participants were concerned that it would be harder to decline a policy being offered face-to-face:

"I feel it's harder to say no…because I almost feel it's a slight on them personally if I say no"
Female CDFI target client

In terms of servicing a protection product the participants differed in their preferences of payment methods and frequency of payments. Some preferred weekly payments:

"I get paid weekly so weekly would be better for me. I can't be trusted to save it until the end of the month"
Male CDFI target client

"I prefer weekly. I divide everything up each week and I put in jars"
Female CDFI target client

Other preferred to pay on a monthly or annual basis:

"Ideally I'd like to pay it in small instalments. Each month a small amount and you can balance your budget"
Male Somali Brawanese community

"I would prefer to have it in one go…at least then I know for…certain year I have paid that amount. Instead of paying in instalments. Maybe today you have, tomorrow you don't have…If you find a suitable insurance you really want, you might as well pay it in one go"
Female Somali Brawanese community

The participants were particularly interested when prompted about insurance-with-rent schemes:

"If…it's an extra £5 a month with your rent going to your insurance then you won't miss it as much"
Female CDFI target client

"If [name of housing association] says a pound a week extra and we'll insure you, I'd accept"
Male CDFI target client

"That way you wouldn't miss it"
Female CDFI target client

"You don't feel like you've got that other bill, it just goes out with the rent"
Female CDFI target client

"I think that'd be a good way"
Female CDFI target client

Generally, as discussed in Section 4.4, the aversion against electronic means of servicing an insurance policy via direct debits was secondary to costs and distrust as a reason for not having HCI. Nevertheless, a considerable minority of focus group participants preferred cash or payment cards to pay for premiums:

> *"I don't think you should be forced to pay via direct debit if you don't want to. A lot of companies do. They force you into paying, because if you don't pay via direct debit they add on a £3 charge. I just think we're losing our options nowadays…So I think it should go back to options."*
> Female African community

4.6.3. Ideal insurance providers

Three institutions were mentioned most frequently as trusted or preferred providers. First, the single-most mentioned provider was the social housing landlord:

> *"I wouldn't have any trouble with my landlord or with my bank. If the landlord says…I'd prefer that. Because you can get direct with them. You just get on the phone and they're there."*
> Male CDFI target client

Second, numerous participants also said they would prefer to take out insurance with their bank or building society:

> *"I think I'd go back to my bank…I had [my HCI] with my bank before and it was alright"*
> Female CDFI client

Finally, the majority of the CDFI clients would prefer the CDFI to provide them with insurance. However, it is important to note that they only said so when this was raised as a possibility by the moderator:

> *"If PML were offering insurance I would rather go here than anywhere else because I find people here have been good to me. They've helped me when other people wouldn't so I would want to come here."*
> Female CDFI client

> *"I would [get insurance from CDFI]"*
> Female CDFI client

> *"I would as well."*
> Male CDFI client

> *"I think [PML] is dirt cheap."*
> Male CDFI client

Numerous concerns appeared to influence who the participants favoured as their provider of insurance. First, many participants would prefer to take out insurance with a company or an institution with which they had a long relationship, possibly based on trust so trust they would pay out:

> *"I would probably trust my building society…I've been with them for like 15, 14 years"*
> Female CDFI target client

Second, for some participants the size of the company was important because larger companies were seen as less likely to become bankrupt or default on claim payment:

"Me personally I go with [name of insurer] because it is a big company. You don't know with small companies whether you're going to get paid…I basically stay with a reasonably sized company knowing that if I do need to claim…"
Male CDFI target client

"A big company. One likely not to go bust"
Male Somali Brawanese community

Finally, the choice of preferred supplier also appeared to be influenced by the ease and convenience of getting in touch with provider:

"Because you can get direct with them. You just get on the phone and they're there."
Male CDFI target client

4.7. Implications for CDFIs delivering insurance

The findings of the focus groups suggest that there is a latent demand for, namely, life and HCI policies. However, the comments made by the focus group participants suggest that meeting target CDFI clients' expectations of a desirable insurance policy is a tall order. Based on the focus group discussions, target clients want a simple and comprehensive policy covering all eventualities, including breakdown cover. In addition, they want the product to be affordable, though there appears to be a trade-off between cost and probability of the event in question, and many would like to at least have the option of paying in cash. Preferably, the sales would occur on a face-to-face basis, whereby the products and the fine print are well explained. Finally, target clients must be able to feel that they can trust that the insurer will pay out in the event of a claim and that the claims process is respectful and does not criminalise the claimants.

If a CDFI insurance delivery scheme falls short of one or several of these expectations, the CDFI sector risks damaging its reputation and standing among existing and potential clients. Indeed, the focus groups revealed very negative attitudes to insurance policies and insurance companies, especially among those participants with negative experiences with insurers. If CDFIs are to distribute insurance policies, clients' negative experiences with claims settlement or cancellation fees may have a negative impact on the reputation of CDFIs, even though it may be the fault of the insurance company rather than the CDFI.

That said, the findings also indicate great opportunities for a well-designed CDFI insurance delivery scheme, though potentially more for life than HCI. Face-to-face sales and accompanying light-touch advice is a key component of the CDFI business model. CDFI frontline staff have built up considerable experience in explaining relative complex financial products to people with low financial capability. CDFIs already have experience in grappling with the scepticism of target clients towards electronic means of transfer and direct debits, and many CDFIs also have a positive track record of enticing clients to shift to direct debits.

5. Providing insurance to the financially excluded: the UK experience

5.1. Introduction

In this chapter we analyse and discuss the experience of three UK insurance schemes aimed at the financially excluded: Options for Life run by Christians Against Poverty, Age Concern Enterprises, and Social Housing Landlord insurance schemes for tenants.

The review of UK schemes for the delivery of insurance products to low-income households is an important part of the study for two reasons. First, they offer an indication as to the extent to which existing initiatives are sufficient to cover the demand and need for insurance among low-income households. Second, such a review can reveal challenges in working with the lower-income market segment, as well as good and bad practice in delivering insurance.

After briefly presenting the schemes, the discussion centres on four important aspects of insurance for the financially excluded: affordability and affordability drivers (e.g. wholesale purchase, security measures etc), marketing and up-take, additional support and discontinuation, and sustainability.

5.2. Options for Life – Christians Against Poverty

In light of the difficulties of poor households in accessing insurance and the apparent apprehension of the insurance industry to actively market their products to these households, a charity called Christians Against Poverty (see Box 5.1) piloted the provision of life insurance products to low-income households in 2003.

Box 5.1: Christians Against Poverty

Christians Against Poverty (CAP) was founded in 1996 in Bradford by John Kirkby. The charity operates through a growing network of centres based around the UK, all opened in partnership with a local church. CAP currently has 58 centres across the UK and aims to have 300 centres by 2021.

The main services of CAP are a debt counselling service and a budgeting service called the CAP account. Through the CAP account, the bills of the account holders are paid for them. The account can be set up following a home visit and after agreement has been reached with creditors. Currently nearly 1500 clients have an active CAP account. The accounts are managed by a centralised unit called the Central Payment Unit.

To ease pressure on the CAP centres, the charity also operates with two centralised units – the Credit Liaison Unit and the Client Support Unit – which negotiate with secondary creditors and offer ongoing client support to existing clients with CAP accounts respectively.

Source: Christians Against Poverty website (www.capuk.org)

Deemed as a successful pilot, Options For Life (OFL) was created as a private limited company in June 2004 to serve as a specialised provider of life insurance products to CAP clients. OFL was created as a subsidiary of County Financial, which is owned by a CAP board member. The indemnity cover was then extended to OFL. Moreover all the legal, auditing and reporting requirements were met by County Financial.

OFL offered Term Assurance, which pays out a lump sum in the event of the death of the policy holder, provided premiums are paid up to date. CAP would market life insurance, as a generic product, to its clients through its network of debt advisory centres and educate them in the workings and potential benefits of life insurance. If the client was interested in taking out a life insurance policy, the CAP staff would pass on the contact details to the OFL staff who would then contact the client in question. Using an IFA software programme called Exchange, OFL would find the life insurance product and provider most appropriate for the customer in question.

In addition to marketing the policies, CAP also offered extensive support to policy holders to ensure continuation of the policy in the form of debt and money advice. Also, most of the policy holders would also have a CAP budgeting account. However, a combination of very low uptake, relating to a high risk of premature death among target policy-holders, and high policy discontinuation rates led CAP to close down the scheme in March 2007.

5.3. Social landlord tenant HCI schemes

Because they probably constitute the single-largest group of uninsured households – approximately 7 out of 10 of the 6 million social housing tenants in Great Britain – social housing tenants are a key target for insurance schemes aimed at the financially excluded. Social landlords have been operating tenant HCI schemes for at least 20 years.

These schemes are most commonly known as insurance-with-rent schemes, though probably only a minority of these schemes actually offer tenants the opportunity of paying the insurance premiums with rent. One of the best-known social housing landlord HCI brands is the recently launched My Home (box 5.2.)

Box 5.2: My Home

The National Housing Federation (NHF) and the insurance broker Jardine Lloyd Thompson launched My Home in 2006. My Home is an affordable HCI that NHF members can offer their members. To date, over 15,500 tenants of 280 social housing landlords are using My Home HCI.

Source: NHF (Undated)

The social housing landlord tenant insurance schemes model is a variant of the partner-agent model. The insurance company is responsible for manufacturing (price setting, product design), reinsurance and claims reserves. The social housing landlord is, to varying degrees, responsible for marketing and distributing the home content policies. The insurance companies generally negotiate the terms of the scheme and liaise with the social landlords through brokers. In addition to supporting the social landlord in finding and negotiating the insurance package, social housing insurance brokers also offer support tailored to the individual schemes, including promotion and marketing, regulatory compliance and scheme management.

The HCI policy to be offered to the tenants of the social housing landlord in question is generally determined through a competitive tendering process. In this process insurance companies compete to provide a package of insurance policies (e.g. professional indemnity insurance) for the landlord, including tenant HCI policies. This bundled approach gives landlords considerable bargaining power resulting in competitive offers. The terms for the social landlord tenant insurance is negotiated every three years or so.

The insurance companies operating in this market have developed a generic HCI policy for social tenants. Important traits include insurance against bogus callers, low minimum sum insured and numerous payment options. Today Royal and Sun Alliance, and Norwich Union are among the greatest social landlord insurers with around 500,000 policies.

There is great diversity in the nature and type of social housing tenant HCI schemes. This variation is largely due to the extent to which the landlord chooses to execute tasks linked to insurance provision in-house or arms-length. In addition to choosing between in-house and arms-length schemes, social landlords may chose between opting for an in-house scheme whereby insurance premiums are collected with the rent and a scheme whereby premiums are collected separately. With-rent schemes tend to be more costly for the landlord to set up and administer as it has to separate out payments and send them to the insurer and it also carries the dilemma of prioritising rent or premium payments.

5.4. Age Concern

Age Concern Enterprises Ltd (ACE) – the trading arm of the charity Age Concern (Box 5.3) – has been offering insurance to elderly households since 1986. Today it offers a wide range of insurance policies:

- ***Funeral plan:*** Transport and treatment of diseased, coffin, hearse, funeral director and contribution towards cremation/burial fees, doctors' fees for certificates and minister and officiant's fees. 3 different plans. Can be paid in single payment (£2,025-2,495), 12 monthly payments (£168.75-207.92) or 60 monthly payments (£38.95-48). 60 payments carry an extra total charge of £312.25-384.72.
- ***Home insurance:*** Provided in partnership with Fortis Insurance Limited for people over 50. Includes new-for-old cover, HCI or building or both, and small excess (typically £25). Building pays out up to £400,000, content pays up to £100,000 for household goods, valuables, money, credit cards and personal belongings in home or garden + up to £50,00 to pursue or defend legal disputes for extra cost. Accidental damage at extra cost.
- ***Life insurance:*** Provided in partnership with AXA Sun Life plc. Guaranteed access for people aged 50-85. Once paid into plan for 2 years guaranteed fixed lump sum paid out on death. If used before 2 years, then premiums returned + half total sum of premiums. Fixed premiums from £7 per month (up to £37)

In addition, ACE also offers car and travel insurance.

Box 5.3: Age Concern England

Age Concern England is a Federation of over 400 local charities aimed at promoting the well-being of all older people. Founded in 1944 under the name the National Old People's Welfare Committee (NOPWC), the federation was renamed Age Concern in 1971. In spring 2009, Age Concern merged with Help the Aged.

Age Concern England works to promote the well-being of the elderly in numerous ways including influencing policy, national information and advice campaigns, influencing markets and addressing market failures affecting the elderly (mainly through supply of insurance products), and by supporting local Age Concern charities financially and through advice and technical support.

Locally, Age Concern Charities have a wealth of services targeted at the elderly, including information and advice on a wide range of issues (e.g. health, public services, housing and financial services), befriending and related support services, and advocacy services.

Source: Age Concern website

The main reason for starting to provide insurance was that existing products did not cater for many elderly customers. The first product ACE launched was an HCI policy. A key problem with mainstream HCI policies was that the vast majority of insurers only offered products with large minimum sums insured. ACE then moved on to offering travel insurance. Obtaining appropriate cover for travel for the elderly in the mainstream market is problematic. In particular, mainstream policies often do not included full cover for health and pre-existing conditions, and in some cases there is an upper age limit.

ACE's policies offer full health cover, cover pre-existing conditions. ACE does not have an upper age limit on any of their policies. ACE' HCI policies automatically cover lift chairs, carers' belongings, wheel chairs and borrowed medical equipment often not covered by mainstream policies.

ACE works in partnership with the insurer Fortis who underwrites the policy. The policy has been designed by ACE specifically for the elderly. The products are sold in three ways: through local Age Concern charities; through phone sales; and through the internet. The latter is the fastest growing. Around 150 local Age Concern charities can sell ACE insurance products as trading alliance partners. The trading alliances are governed by individual trading agreements between ACE and the local Age Concern charity in question. The local charities are appointed representatives to promote Age Concern insurance policies. They can also collect premiums and provide customers with personal quotation.

The exact arrangements for the sale of the policies vary from charity to charity. In some charities they have staff members dedicated solely to the sale of insurance while in other charities the sale of insurance is just one along with other tasks.

5.5. Discussion

In the preceding sections we outlined the structures, processes and product design of the insurance schemes in the study. However, a more important question is how effective these different schemes are. Hence in this section, we discuss the merits of the schemes in terms of affordability, marketing and up-take, additional support and discontinuation, and sustainability.

5.5.1. Affordability

Affordability is a key concern for insurance schemes aimed at the financially excluded. Financially excluded households often live in areas at relative high risk of burglary and they are also at greater risk of premature death, factors which drive up costs and risks for insurers. Yet the financially excluded often live on low and fluctuating incomes. Hence a key challenge for insurance schemes is to find mechanisms for ensuring that premiums are affordable.

The cost of premiums of Social Housing Tenant insurance is often lower than equivalent products in the mainstream insurance market. This is especially the case for tenants living in high-risk postcodes:

> *"What we do know is that our…insurance is considerably cheaper than anything you get on the mainstream market. The… scheme is very cheap if you live in a high-risk postcode."*
> Operations Manager – Customer Services Team, Great Places Group

This relative affordability of social housing HCI appears to be driven by three factors. First, because social housing landlords negotiate tenant insurance along with other forms of insurance, they have considerable bargaining power in view of the size of the housing stock, which results in lower premiums.

Second, according to an interviewee from a major social housing insurer, the insurance companies trust the social housing landlords to strive to implement and improve risk reduction measures. In 2003, the insurance company in question did not raise the HCI premiums for the tenants of a social housing landlord in Glasgow following the flood despite the subsequent massive claims. According to the insurer, this was because the landlord took action to fix the drainage to prevent or mitigate effects of future floods.

A final driver of affordability is a good claims performance. Because of tenants' affinity with their landlords tenants often do not make small claims. Indeed, according to a representative from a social housing landlord insurer, social housing insurance schemes perform better than most standard policies.

Generally, in-house schemes tend to be more expensive than arms-length schemes, because the landlord will typically charge commission to cover administrative costs. However, as discussed in Section 5.5.2, these schemes tend to have a higher take-up and greater continuation rates.

Conversely, OFL, the only scheme distributing mainstream insurance products, struggled to find affordable life insurance policies for their clients, given the poor health of their clients. Indeed, as we discuss below, only around 20% would qualify for a life insurance policy with any insurer.

That said an interviewee from a social housing landlord insurance broker argued that the lower income market is not particularly cost sensitive. The focus group findings would support this (see Section 4.4). Further, research into low-income consumers often confirms that they are not very cost-sensitive, which is surprising considering their low incomes. More important than the overall cost or price, is that premium or loan repayments are made in manageable weekly payments. Moreover, other considerations such as cover, payment methods, simplicity and transparency, minimum sum insured and excesses are almost as important for low-income consumers as affordability.

5.5.2. Marketing and up-take

Take-up and marketing and promotion are crucial and inter-linked aspects of insurance schemes aimed at financially excluded consumers. A high up-take is important for the financial and operational sustainability of insurance schemes through benefiting from economies of scale. Also, up-take is an important indicator of impact, reducing absolute and relative number of uninsured households. In turn, as discuss below, marketing and promotion influence take-up.

OFL experienced considerable interest in taking out life insurance among CAP clients. According to CAP figures, 60-70% of CAP clients (i.e. individuals with CAP accounts) took the first steps towards taking out a life insurance policy. Nevertheless, only between 13 and 19% of those reached a point where taking out such a policy would be possible.

Table 5.1: Take-up OFL

	2004	*2005*	*2006*
New CAP clients	748	859	1,139
Number of life insurance policies issued	100	155	216
Percentage taking up life insurance	13	18	19

Source: Friends Provident Foundation (2008)
Notes: New CAP clients are defined as those that open up a CAP account

This low success rate was largely caused by the high prevalence of health problems among CAP clients. Mental health issues were particularly prevalent, with around a quarter of CAP clients having attempted suicide or having had suicidal thoughts,[7] in which case a 6 month cooling of period was automatically applied.

Low up-take has traditionally been the Achilles heel of social housing landlord with-rent and not-with-rent schemes in the UK (Demos and Safe, 2005; Hood et al, 2005; New Policy Institute, 2007; Vestri, 2007). According a representative from the insurance industry, out of the approximately 6 million social housing tenants, 3 million are considered to be in play, whilst the remaining 3 million either already have insurance with another provider or are not interested in taking out a policy. Because a social housing tenant insurance scheme is considered to be reaching market saturation at an uptake level of 25% of tenants, this means that nationally social housing schemes should aim for 1.5 million HCI policies.

Unfortunately, it is difficult to accurately ascertain the relative take-up across the social housing schemes because there is not single database where such information is collected. According to estimates provided by an interviewee representing a social landlord insurer, the two largest social housing insurers have around 500,000 customers or 10% of social housing tenants.

According to an interviewee from a major social housing broker, the average up-take of social housing landlord HCI insurance schemes is around 17%. However, this average figure hides considerable variation in up-take for the different schemes, which ranges from 2-3% to 30%. According to the interviews, this variation is mainly accounted for by the emphasis put on promoting and marketing the scheme by the landlords: the landlords that to a greater degree promote HCI have greater take-up.

The interviewees identified four key reasons for low up-take of insurance among the financially excluded despite the existence of schemes catering to their needs. First, there is often a deep-rooted distrust among low-income households of insurers. This is largely corroborated by the focus groups and other market research (e.g. Ipsos MORI, 2007). This distrust may in some cases arise from consumers own bad experience with insurers, but more often it is probably driven by stories of the bad experiences of other people. Negative stories of failed claims travel fast in local communities, according to an interviewee from a social housing landlord broker.

Second, many low-income households believe that they do not have enough assets to warrant an HCI policy. This is echoed by a recent market study by Ipsos MORI (2007) which found that even if uninsured consumers considered that they had sufficient assets to warrant taking out a home content insurance policy, they often believed they

[7] OFL defined these as suicidal thoughts expressed to GP or other health personnel.

could replace these items cheaply without insurance by drawing on relatives and charity shops.

Third, the interviewees from a social housing landlord highlighted that a lot of tenants mistakenly believe that they and the contents of their accommodation are protected against a range of incidents, such as leaking pipes.

A fourth reason for low up-take of HCI among Great Places tenants is believed to be that many elderly tenants already have taken out an HCI policy with Age Concern. This makes increasing up-take all the more challenging as generally the elderly are believed to have greater propensity to take out HCI.

5.5.3. Additional support and discontinuation

Discontinuation of policies is a potentially serious problem for insurance schemes targeting the financially excluded. Financially excluded households often have tenuous links to the labour market, making them go in and out of employment. Given an often slow response time of the benefit system, this often leads to disruption in the income stream jeopardising steady payments perceived as non-essential, such as insurance. This is problematic as discontinuation means that the household is no longer covered for the event in question.

Even so, none of the schemes reviewed operate with support arrangements explicitly designed to aid policy-holders continue premium payments despite financial difficulties. This is likely to be a product of the fact that in none of the specific schemes which we reviewed are the housing associations or charities in charge of collecting payments. It is possible that insurance-with-rent schemes, where the social landlord is responsible for premium collection, are more conducive for support arrangements.

That said one scheme operates with a support scheme which, although not explicitly put in place to support policy holders, helps them manage their money and to put aside money for insurance premiums. CAP would offer generic money advice as well as debt advice. In addition, CAP offers budgeting accounts which their clients may pay in a monthly amount which CAP uses to pay their clients bills. As part of that CAP would maintain a two month buffer in order to ensure continuation of policy.

However, it was very challenging and costly in terms of administration to keep this up. Moreover, when in financial difficulties, which was not uncommon given that CAP clients (the OFL client pool) came for debt counselling, premium payments would often be the first to be sacrificed. Therefore, despite these fairly extensive support mechanisms, over a two-year period 40% of policies would be discontinued.

Moreover, according to an evaluation of the scheme (Friends Provident Foundation, 2008, p. 2) "42 per cent of [CAP] accounts [per March 2007] had insufficient funds, and if CAP had not put resources into monitoring and managing this 'buffer' system these clients may have lost their life insurance policy. The reported cancellation rate was therefore significantly lower than it would have been without high levels of support from CAP."

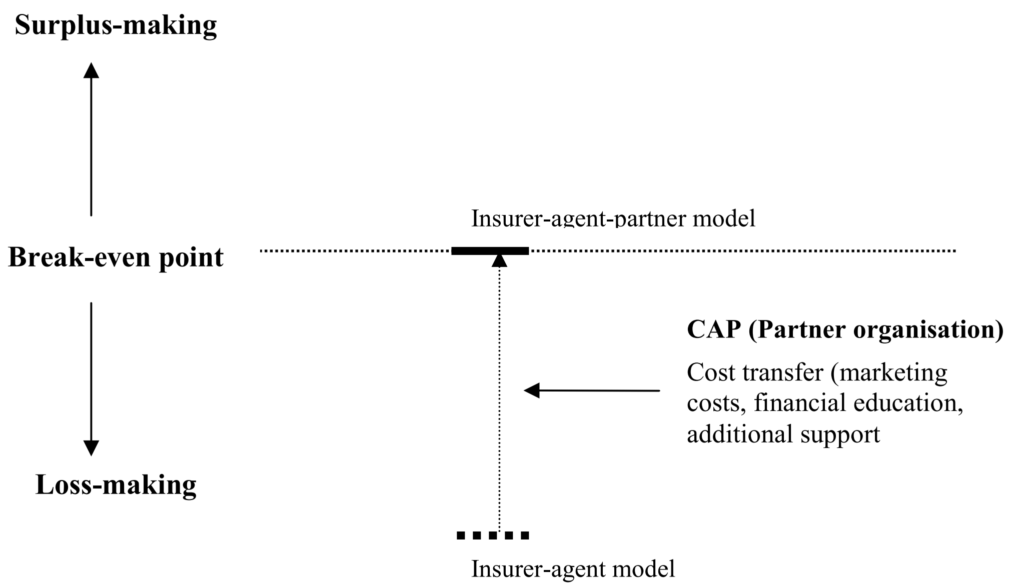
The existence of support schemes for social housing landlord HCI depend on the social landlord. My Home lapses within an arrears catch-up period of six weeks. So there is some room for policy-holders to get back on track with payments. In addition, often social landlords will guarantee access to money and debt advice within a certain time-frame (typically 10 working days) for its tenants through agreements with debt advisory agencies.

5.5.4. Sustainability

The financial sustainability of insurance schemes aimed at low-income financially excluded households is of crucial importance. Ultimately the prospect for financial sustainability may determine the feasibility of delivering insurance through the CDFI sector.

Although OFL was shut down in 2007 for not being an effective means of promoting access to life insurance among CAP clients, its demise hides a highly innovative and initially financially sustainable insurance delivery model. OFL broke even financially in its first 18 months of operation. The OFL model is illustrated in Figure 5.2.

Figure 5.2: The OFL model



The stippled horizontal line at the centre of the figure represents the break-event point for an insurance provision scheme targeted at low-income, financially excluded clients, such as those of CAP and OFL. Above the break-event point a scheme makes a profit, while below it the scheme makes a loss.

The target clients of OFL constitute a market segment that is costly and hard to reach. They tend to have low levels of financial capability and understanding of insurance and other financial products, and they prefer face-to-face contact as opposed to internet and telephone. The notion that insurance products have to be actively sold and marketed is especially true for these households given their high levels of distrust of insurers and financial institutions in general.

Using a standard insurer-agent model on the above-described market segment it is unlikely that OFL would have been able to break-even, as illustrated by the stippled horizontal line below the break-event point. Therefore the key to sustainability of the OFL model was that OFL transferred costs and tasks to its partner organisation, CAP. CAP marketed the services of OFL and generic life insurance, educated its clients in principles and mechanics of insurance, and supported clients through budgeting accounts and money advice. In other words, CAP carried part of the acquisition costs. This allowed OFL to break even as depicted in Figure 5.2.

Ultimately, it was the high discontinuation rate and the consequent claw-back of commissions – the income base of OFL – that rendered the model unsustainable. In the case of life insurance policies, the companies can claim back all commission paid in if the policy is discontinued within the first four years.

Financial sustainability has been less of an issue for social landlord insurance schemes, as the promotion of HCI has been motivated by a concern for the welfare of tenants. With the exception of the insurance-with-rent schemes, the social landlords do not charge any commission. With-rent schemes are more costly to the social housing landlord to set up and administer as it has to separate out payments and send them to the insurance company and it also carries the dilemma of prioritising rent or premium payments.

5.6. Implications for CDFI insurance delivery

The results of the focus groups were indicative of a latent demand for insurance policies. To what degree do the existing UK schemes meet this demand? Unfortunately, the lack of data makes it difficult to ascertain whether the existing schemes are making inroads in lowering the proportion of uninsured households. In terms of the social housing landlord schemes, the estimates provided would indicate an average take-up of around 10%.

The ABI (2007) reports that despite the fall in costs in real terms of around 40% from 1994 to 2007, the proportion of the population with home contents and building insurance has remained relatively stable. This seems to be confirmed by data cited by Demos and Safe (2005). Between 1994/1995 and 2003/2004 the proportion of registered social landlord tenants fell from 63.4% to 59.2%, but the proportion of council tenants without insurance increased from 54.4% to 60.8%. The data from the most recent FRS suggests that the proportion of social tenants without insurance has remained stable at around 64%.

The interviewees highlighted four issues that CDFIs must grapple with to make a dent in the number of uninsured households. First, they must overcome a deep-rooted distrust among low-income households of insurers. Second, many low-income households believe that they do not have enough assets to warrant taking out an HCI policy. Third, a lot of tenants mistakenly believe that they and the contents of their accommodation are protected against a range of incidents, such as leaking pipes. Finally, many elderly tenants, who have a greater propensity to take out insurance, have already taken out an HCI policy with Age Concern, leaving mainly the hard-to-reach consumers.

Also, simply relying brokering existing mainstream products is challenging as often end up being too costly, as OFL experienced, and as they are not adjusted to the needs and wishes of low-income consumers. Rather, a more sensible option would appear to be rolling out a generic no-frills HCI policy similar to those developed for social housing landlords. The affordability of such policies is a function of three factors: the bargaining power of social landlords as corporate clients and in view of housing stock, the implementation of security measures and good claims performance.

Achieving affordable insurance products may prove to be a major challenge for CDFIs in that they have a much smaller target client base compared to social housing landlords. Another potential threat to maintaining affordability and at the same time ensuring that delivery costs are covered is the insistence on the part of numerous insurance companies on the use of insurance brokers. If both the broker and the CDFI charge a commission to cover delivery costs, the premiums paid by the clients may end up costing more.

In terms of sustainability, the main lessons come from Age Concern and OFL, as social housing schemes put less emphasis on recovering costs. A key lesson is that cost transfers through effective partnerships can be vital in reaching sustainability. However, finding appropriate partner organisations may prove challenging given that social housing landlords, one of the main partner organisations of the CDFI sector, are already delivering their own insurance product. Another important lesson from the case of OFL is the need to have a mechanism to offset or deal with claw-back in the case of life insurance policies.

6. Providing insurance to low-income households: the experience of international MFIs

6.1. Introduction

In this chapter we review the experience of five microfinance institutions (MFIs) in distributing insurance (Table 6.1). Drawing on the experience of the international microfinance sector in providing insurance for the financially excluded is an important component of the research. Because many MFIs have already incorporated insurance provision alongside microcredit and savings products, their experience may provide valuable insight into the potential institutional impact (human resources, structures and processes) of such a move for a CDFI.

Table 6.1: International MFI case studies

	ADIE	Pro Mujer	WWF	MIA	CETZAM
Country	France	Bolivia	Colombia	Global	Zambia
Year start	2007	2007	2003	2005	2001
Products	Property Sickness & accident Vehicle Indemnity	Credit life Term life	Term life	Credit life Term life Funeral cover Crop	Property Term life Credit life

After briefly presenting the five schemes, the discussion centres on the institutional and client impact of incorporating insurance policies alongside existing microfinance services.

6.2. ADIE

Since July 2007, the French MFI ADIE (see Box 6.1) has been offering voluntary microenterprise insurance products to active borrowers in four French regions: Ille-de-France, Midi-Pyrénées, Poitou-Charentes and Limousin. In 2009, ADIE aims to be offering insurance nationally.

ADIE decided that it needed to offer insurance products to its clients after a survey of 600 clients in 2006 revealed a number of barriers faced by low-income micro-entrepreneurs in accessing insurance. Mainstream business insurance policies were too expensive for most of ADIE clients. Moreover, insurance companies are often reluctant to offer insurance to small businesses for less than £850. In terms of construction insurance, there is little competition for start-up businesses, with only one insurance company operating in this market. Consequently it is costly to take out such insurance.

Box 6.1: Association pour le droit a l'initiative économique (ADIE)

ADIE, a French MFI, was founded in 1988 to provide microcredits and business support to low-income, financially excluded microenterpreneurs and to create a more conducive legislative and regulatory environment for microcredit provision and microenteprise development. With its 130 agencies and 380 offices, ADIE covers the whole of France including its overseas departments.[8] It has 369 paid staff members and over 1,000 volunteers.

ADIE offers three microcredit products for start-ups and existing microenterprises. First, it offers microcredit of up to £4,760 for a maximum of two years at an interest rate of 9.71% and a fixed fee of 5%. ADIE made nearly 10,000 such loans in the course of 2007 making it the single-biggest credit line with an outstanding loan portfolio of £26.8 million. Second, it offers interest-free loans for a maximum of 4 years, though with a fixed fee of 5%, for purposes not covered by main microcredit range. In 2007, ADIE made nearly 2,400 such loans. This credit line has an outstanding loan portfolio of £10.8 million. Finally, ADIE is currently piloting a microcredit to facilitate the entry of low-income individual into the labour market. This covers mobility costs (transport, driver's licence) and vocational training. All micro-credit products are individual loans, though some have group guarantees attached to them.

In addition to microcredits ADIE offers individually tailored and generic courses on a range of topics, including computing, accounting, business plan and marketing. In 31 centres in 13 regions of France, ADIE clients can also access and use computers.

The clients of ADIE are living on a low income, with limited skills and with none or tenuous links to the labour market. Out of its clients, 43% are on means-tested benefits, 43% are unemployed, 14% are low-income workers and 21% have low literacy. The key objective for ADIE is that its clients graduate to start using mainstream financial services. For example, ADIE borrowers can only use ADIE for a maximum of 3 years before they have to move on to a mainstream financial institution.

Source: ADIE (2007), ADIE (2008)

Specifically, ADIE offers four insurance policies. First, the home multiple risk insurance pays out £26 per day for up to 3 months in the event of problems leading to discontinuation of production or sale or service delivery. It also pays out up to £3,460 for stolen goods and furniture, and up to £8,660 in the event of fire. The annual premium for this product is between £170-260. Second, the professional multiple risk insurance pays out £26 per day for 3 months for sickness or accidents at an annual premium of £170-260. Third, ADIE sells a vehicle multiple-risk insurance policy. Finally, ADIE offers a 10-year indemnity insurance policy for construction and home repair and improvement companies, which is mandatory in France. There are three annual premium bands for this product: £950 for minor home improvement work, £1,385 for plumbers and £2,340 for big construction projects.

ADIE works in partnership with AXA France and Macif, part of the AXA group. ADIE and AXA France and Macif designed the product specifically for ADIE clients together. The product is marketed as an ADIE-branded insurance. ADIE markets, sells, sets up the insurance contract and collect the premiums. AXA France and Macif are responsible for providing actuarial capacity, reinsurance, and for verifying, settling and paying out claims. In the event of sickness, there is a process of self-reporting based on a note from a doctor.

For all policies, the annual premium is paid in full a year in advance with a loan from ADIE. A client can have an ADIE insurance policy for up to 3 years before they have

[8] Nouvelle-Calédonie, Guadalupe, Martinique, Réunion Mayotte and Guyana.

to move on to a mainstream insurer. This is because graduation to mainstream providers is a key objective of ADIE. Ten percent of the loan (the principal), or in other words the premium, goes to the insurance company to cover the administrative costs of the insurance scheme.

6.3. Pro Mujer

Since 2007, Pro Mujer Bolivia (see Box 6.2) has been offering two insurance products to its clients. The first is a credit life policy which pays the debt of the client of up to £6,100 in the case of death (decreasing principal). The second policy is individual term life insurance, under which the relatives of the client are paid a lump sum just over £500, in the case of the death of the client. Both policies are mandatory for and exclusive to active borrowers. The monthly premium is £0.18.

Box 6.2: The Pro Mujer Network

The Pro Mujer network was founded in 1990 by Lynne Patterson and Carmen Velasco. It is a microfinance network that offers credit, access to saving accounts, healthcare, and training to poor women entrepreneurs in Latin America. The Pro Mujer network currently operates in Argentina, Bolivia, Mexico, Nicaragua and Peru.

Pro Mujer was first established in Bolivia in 1993. Today Pro Mujer Bolivia has 700 employees and 25 offices in 8 of the 9 provinces of the country. Pro Mujer Bolivia is an MFI that offers both financial and non-financial services.

Per June 2008, Pro Mujer Bolivia had 101,976 clients (savers and borrowers), an outstanding loan portfolio of £14 million and a savings portfolio of £5.5 million. The average loan size is around £150. The portfolio has grown by 54% over the last year. Over 90% of loans made are made using the Grameen Bank solidarity group methodology

For a monthly fee of £0.30, clients are entitled to health services delivered by a team of doctors and nurses at Pro Mujer Bolivia's neighbourhood centres, including cancer and sexually transmitted diseases screening, vaccinations and treatments for respiratory infections and diarrhoea.

Pro Mujer Bolivia also offers day-care facilities, four computer centres in two locations where clients and teenagers learn computer skills and young children learn basic skills – reading, writing and math – and English lessons. Finally, Pro Mujer Bolivia offers legal education and support, helping women to become aware of their rights and know how to get help if needed, in cases of domestic violence.

Source: Velasco and Chiba (Undated), Pro Mujer website (www.promujer.org)

The life and credit life insurance policies are delivered in cooperation with the Bolivian commercial insurance company La Vitalicia, part of the BISA group. This partnership was developed and formalised over a four-month period. In the beginning of 2007, Pro Mujer Bolivia chose to work with La Vitalicia following discussions with several insurance companies. For Pro Mujer Bolivia it was important that La Vitalicia recognised the social merits of delivering insurance to low-income client households.

In the period January-March, La Vitalicia designed a product with input from Pro Mujer Bolivia and the structure of the partnership was determined. The policies were piloted in the provinces of La Paz and El Alto May to August 2007. In August the policies were rolled out in all the provinces where Pro Mujer operates and today around 90% of clients, or 80,000 clients, are insured.

The division of responsibilities under the partnership arrangement is as follows. The insurance policies are marketed and sold by the loan officers who help the clients fill in the application forms which is sent to La Vitalicia. The loan officers do not receive bonuses for selling insurance, but are instead rewarded based on targets for new borrowers, client retention and for the quality of the loan portfolio.

Pro Mujer Bolivia collects the premiums with the loan repayments and pays La Vitalicia every two weeks. In terms of claims management, the relatives of the clients inform Pro Mujer about the death. Pro Mujer Bolivia then verifies the claim, helps the relatives fill in the questionnaire and sends it off to La Vitalicia. Once the claim has been registered, the insurer sends a cheque to the MFI who passes this on to the relatives of the client. The insurer is responsible for reinsurance and for keeping claims reserve.

Any losses or profits are shared by the insurer and the MFI on a 50/50 basis. To date, Pro Mujer Bolivia has been able to cover all its insurance delivery costs with income from the premiums.

6.4. CETZAM

CETZAM (see Box 6.3) offers three insurance policies: a credit-life policy, a funeral (term life) insurance policy and a property insurance policy. All the policies are compulsory. The premiums for all the policies are deducted from the disbursed loan. The insurance policies cover the period of loan, which is normally 16 weeks, plus an additional two weeks.

Box 6.3: Christian Enterprise Trust Zambia (CETZAM)

CETZAM was created in 1995 as an NGO to combat poverty through microenterprise development. CETZAM became implementing partner of the international microfinance network Opportunity International (see Section 6.5 for further information) in 1996 in order to become "sustainable, formal, regulated financial institution" providing microfinance services to low-income households in Zambia (Leftley, 2005, p.14). CETZAM started lending in 1998.

In the following years, CETZAM embarked on a DFID-funded expansion to enable the MFI to become sustainable and to operate on a national scale. However, CETZAM went through restructuring in 2002 and 2003 leading to a reduction in the number of branches and customers (from 20,000 to 3,000 by end of 2003) following a high PAR (at around 5.4%) and an operational sustainability ratio as low as 35.4% (Leftley, 2005). Ultimately, the expansion was shelved in early 2003 due to poor performance.

Today CETZAM has in excess of 2,800 active clients, 72% of which are women. Its outstanding loan portfolio is £1.2 million and the average loan size is £530. It offers a wide range of microfinance services to its clients. In addition to credit life, term life insurance and property insurance, the MFI offers individual and group loans.

Source: Opportunity International Website (www.opportunity.net), Leftley (2005)

CETZAM first decided to look into offering term life insurance or funeral cover in 2000, when market research into its customers revealed a strong demand for life insurance covering the costs of funerals in particular. Forty-one percent of clients experienced at least one death in their extended family each year and funeral costs averaged 3-6 months salary (Chu and Hazell, 2007). Moreover, existing mainstream insurance policies were found to be prohibitively expensive.

CETZAM approached the national insurer, NICO Insurance Company, shortly after the market research was completed. At the end of 2000 a funeral insurance product called Ntula was piloted in Kitwe in Northern Zambia. During the pilot-phase, Ntula was provided through a local insurance agent. In 2002, CETZAM became an agent for NICO and began offering insurance to all clients. CETZAM claims 20% of commission on premium payments. Initially CETZAM was only responsible for marketing, sales and premium collection, but due to slow processing of claims the agreement was amended enabling CETZAM to settle and pay out claims.

The property insurance is restricted to insuring items used as collateral for an individual loan. It is generally difficult to purchase cover for contents only. However, CETZAM has been able to secure contents-only cover for its clients through a group policy. A fixed rate for building and contents has been negotiated with Madison Insurance Company and the cost of the insurance is loaded into the interest rate of the individual loan. The effect on the interest rate is an increase of 0.25% flat per month (Leftley, 2005). CETZAM submits a schedule of collateral covered under this binding agreement at the end of each calendar month. The sum insured is for the full value of the property even though CETZAM tended to use only a percentage as collateral (Leftley and Mapfumo, 2006).

6.5. Microinsurance Agency

As the first of its kind, the Micro Insurance Agency (MIA) was established as a specialised global microinsurance intermediary by Opportunity International (OI) (see Box 6.4) in 2005.

Box 6.4: Opportunity International (OI)

Founded in 1971 by Al Whittaker, former President of Bristol-Meyers International Corporation, and David Bussau, an Australian entrepreneur, as en ecumenical Christian development organisation, Opportunity International (OI) is today one of the leading international organisations in microinsurance. MFIs affiliated with OI currently offer insurance to 3.3 million low-income households. This includes insurance products such as credit life, health, disability, unemployment, crop, life and property insurance.

There are three layers of OI:
- *Support partners:* Funders
- *Implementing partners:* MFIs
- *Network Service Organisation (NSO):* Demand-driven consultancy, training and technical assistance to implementing partners in strategic planning, management information systems, product development and organisational development

Up to 2000, OI focused mainly on NGOs and charities with local boards and management teams, and limited outreach. However, since 2000 OI has increasingly focused on MFIs with capacity for reaching scale as a means of increasing outreach and impact.

The head office provides all technical and strategic leadership to the regional offices which operate as local relationship managers and data processing centres. MIA sells insurance policies through wholly owned subsidiaries. The subsidiaries are incorporated as local businesses and regulated as insurance agents or brokers working with locally regulated insurance companies, depending on the most effective legal structure for the country in question.

MIA was created for numerous reasons. First, it was created to reduce the transactions costs per policy through scale and back office support. Reducing these costs has been seen as crucial to distribute policies that do not cost more than US$1-1.5 per month (equivalent to £0.60-0.90). A second rationale for the creation of MIA was to extend microinsurance beyond active MFI borrowers by working through non-MFIs. For MFIs it is operationally challenging to service and issue microinsurance products not tied to loan disbursement and repayments. Currently MIA is offering insurance policies through faith-based groups and housing groups. Third, the ability to draw on a range of international and national risk carriers would make the provision of insurance possible even where local insurers would be unwilling to engage. Finally, MIA was created because it was believed that it could extend the range of microinsurance products through product innovation and R&D. Many MFIs may not have the capital or expertise to engage in such activities.

To date, MIA offers a range of insurance policies through 25 MFIs based in 10 countries, including credit life, term life, livestock, property and health insurance. One of the more recent innovations is a crop insurance policy. Research by OI indicated that local banks in developing countries were unwilling to lend to farms due to risk of crop failure. In response to this, MIA developed and piloted a weather-indexed crop insurance policy in Malawi in cooperation with the World Bank. Over 2,500 farmers have taken out such a policy. The policy pays out if the rainfall in the area falls under a certain threshold.

6.6. Women's World Foundation

Since November 2003 the Colombian MFI Women's World Foundation (WWF) (see Box 6.5) has been offering a voluntary group combined life and disability insurance policy called Amparar to its clients.

Box 6.5: Women's World Foundation

The Women's World Foundation (WWF), or *La Fundación Mundial de la Mujer*, was founded as an NGO in Bucaramanga, Colombia, in 1987. Initially concentrated in the North East of Colombia, today WWF has 25 agencies and 150,000 clients across most parts of the country. Over 70% of its clients are women, predominantly microentrepreneurs and petty traders.

WWF offers a range of financial services, including group loans, microcredit, consumption loans and insurance. The main methodology is group lending which operates with groups of three to five members whereby the group guarantees individual loans. Since mid-1990s WWF has been offering individual loans for both consumption and business purposes.

WWF is part of the Women's World Banking network – a global network of 54 MFIs throughout Africa, Asia, Eastern Europe, Latin America and the Middle East

Source: WWF website (www.fmmb.org), WWB website (www.swwb.org)

WWF operates with a group policy whereby a group of clients are enrolled to a single contract. Generally the main advantages of such an approach is that it reduces the administrative and distribution costs per policyholder and it involves lower claims management costs as group risk profile likely closer to risk expectations than individual policies (Brown and Churchill, 1999).

The policy is accessible for most clients between the ages of 18 and 70. The monthly premiums range from £0.60 to £3.70 and are linked to loan repayment (monthly, quarterly and bi-annually). This policy pays out between £790 to £5,270, depending on the type of policy, in the case of death of or permanent disability for policy-holder. The policy also pays for 12 months of groceries and utility services (£7.30-37.80 per month for utilities and £15-63 per month for food) and for an additional £1.20

monthly payments for children's education for 24 months (£9-45 per calendar month) can also be included. WWF has yet to find a mechanism for making monthly payments so the amount is paid out in one lump sum.

WWF works in partnership Equidad, a credit union owned insurer and the scheme works according to a classic partner-agency model whereby the insurer is responsible for product manufacturing (actuarial capacity, claims reserves, risk management, reinsurance, product design, claims settling) and the agent is responsible for marketing, sale and underwriting. The product is marketed as a WWF product with its own brand. WWF receives a 15% commission of each policy it sells.

The take-up has been very high. Between November 2003 and March 2005 WWF sold 10,120 policies. Since November 2004 WWF has been issuing between 800 and 1,100 policies per month. For the first 12 months, sales averaged around 480 policies issued per month. Over a year that translates into around 12,000 policies annually or a take-up of around 25%. Compared to the shareholder cooperatives of Equidad, WWF sells more policies relative to the number of clients. There are mainly two reasons for the high up-take. First, WWF links the insurance product to the loan product which makes it more attractive for customers. Second, loan officers receive a bonus based on the number of policies they sell.

6.7. Discussion

In the preceding sections we outlined the structures, processes and product design of the international microinsurance schemes in the study. However, a more important question is how the introduction of insurance affected the MFI (human resources, structures and processes) in question and its clients. Hence in this section, we discuss and analyse the experiences of the MFI case studies in implementing insurance that is affordable and has a positive impact on its clients, and that does not detrimentally affect the MFI's ability to function and deliver its other products.

6.7.1. Institutional impact: human resources, operations and systems

In this section we explore and discuss how the case-study MFIs have managed the institutional implications of introducing insurance alongside their other financial products. We explore three areas of institutional impact: the effect of regulatory compliance and reporting; the impact on the operations and the management of an MFI; and the consequences for the organisation and use of staff.

Most of the case study MFIs had to grapple with new reporting and regulation. For example, Pro Mujer Bolivia had to subject itself to regulation of the government regulator of pensions, investments and insurance – *Superintendencia de Pensiones, Valores y Seguros* – concerning the appropriateness of the policy and the suitability of the staff involved in marketing and selling insurance.

However, in the course of the interviews, the regulatory implications were often not perceived as much of a burden. It should be noted that in many Developing countries, MFIs are already regulated as financial institutions by the Central Bank and other relevant agencies and authorities. As a result, they may already have developed procedures for collecting and reporting data, and consequently the marginal increase in regulation is not so keenly felt. In the case of the French MFI ADIE, complying with the legal requirements of insurance mediation was among the most difficult aspects, possibly because it had not been subject to much regulation before starting to offer insurance.

Conversely, the incorporation of insurance products alongside their other financial services appeared to have a greater impact on the operation and management of the MFIs. In part, the impact was the production of internal management reports on policies issues and claims. However, the most challenging aspect for most MFIs appeared to be managing the relationship with the insurance company. For example, under the partnership agreement covering its property insurance, CETZAM had to start submitting monthly report detailing collateral (type, value etc) covered by the insurance policy and to Madison. The interviewees from Pro Mujer Bolivia identified the management of its relationship with the insurance company was the single-greatest challenge of providing insurance.

Finally, the introduction of insurance policies alongside existing financial services also influences human resources as new staff may need to be hired and existing staff may have to be retrained. Especially, because insurance is a product that needs to be sold to a greater extent than the more intuitive and often immediately appealing micro credit, the relevant staff members need to be motivated and trained to sell the new product. This is also the case where the policy is compulsory; there is often a need to explain the policy to the clients and explain the benefits of it.

The change in organisational culture towards a sales culture was cited as one of the greatest institutional impacts on ADIE of selling insurance policies. The ADIE interviewees argued that the demand for their loan products was considerable, but that insurance required the loan officers to sell. In order to enable the relevant staff members to explain and sell the relevant policies, they had to undergo a two-day training session and ongoing training each trimester.

When an MFI decides to start to market and sell insurance products, the loan officers are most likely to see their roles and tasks altered. They are likely to be explaining, marketing and selling the policy. In Developing countries, they often also collect the loan repayments and savings, and are therefore also likely to be collecting the premiums.

The loan officers at the Colombian MFI WWF could spend approximately 45 minutes with each client and still meet their target. As the processing of loan applications took around 30-35 minutes, the loan officer only had around 10-15 minutes to sell the policy. Therefore the MFI had to develop a simple, clear and streamlined process of marketing and selling. In addition, offering incentives to the loan officer proved to be a strong motivator driving a comparatively high take-up, as we discuss in further detail below.

Pro Mujer Bolivia did not operate with a bonus system for the sale of its life and credit life policy, because it was compulsory. However, because the MFI operates with a bonus system for the number of loans issued and the portfolio quality the loan officers benefited, as the insurance policy made the loan more attractive and improved the quality of the portfolio. Initially, ADIE also experimented with staff bonuses for policies sold, but soon stopped bonuses as it was found to be not in the spirit of the MFI.

6.7.2. Client impact: affordability and take-up of insurance policies

In this section we discuss the extent to which and how the MFIs in the study delivered affordable insurance products to their clients and the take-up of these policies. In the MFIs where there the insurance policies were compulsory the take-up only fell short of 100% where the policy had yet to be rolled out to all branches. In terms of our case studies, two MFIs offer insurance on a mandatory basis, two MFIs offer insurance on a voluntary basis and MIA offers both mandatory and voluntary policies.

In the case of Pro Mujer, whose life insurance and credit life policies were compulsory, 90% of its 80,000 clients had taken up the policy. The other provider of mandatory insurance policies covering loan collateral and life, CETZAM, had full take-up. However, in one area where the MFI tested a voluntary life insurance policy, the take-up was 20% and it had adverse financial consequences, which we explore below.

There are numerous reasons for the international tendency to offer insurance on a mandatory basis. First, operational limitations, such as the lack of electronic means of transfer and appropriate management systems, make it difficult and costly to collect premiums unless it is linked into loan repayments (Leftley, 2005). Second, a voluntary product means that considerable resources may need to be invested in under-writing by the insurer or the MFI driving up costs. Third, a voluntary policy also increases the risk of adverse selection or in other words that those most likely to be affected by event covered seek a policy (Leftley, 2005). This is likely to drive up premium costs making the product less affordable (Leftley, 2005). Finally, by introducing a mandatory policy, MFIs can maximise their market potential and increase their leverage with insurance companies.

Turning to the providers of voluntary policies, take-up among WWF clients of its group life and disability policy has been relatively high. Between November 2003 and March 2005 WWF had sold 10,120 policies. Since November 2004 WWF has been issuing between 800 and 1,100 policies per month. For the first 12 months, sales averaged around 480 policies issued per month. Over a year that translates into around 12,000 policies annually or a take-up of around 25%. Compared to the other distributors of the policies of the insurer Equidad, WWF sells more policies relative to the number of clients. There are mainly two reasons for the high up-take. First, WWF links the insurance product to the loan product which makes it more attractive for customers. Second, loan officers receive a bonus based on the number of policies they sell.

For ADIE, the only Developed country MFI in our sample, the take-up has been lower. Since it started in July 2007, around 600 people have taken out vehicle, housing or professional multiple risk insurance, while 7-8 people have taken out the 10 year construction insurance policy. The relatively low up-take is in part due to the policy only being piloted in four regions. However, there is also likely to be greater demand for insurance products in Developing countries as there is a greater degree of vulnerability to external shocks and a less developed public safety net. For example, a survey of the clients of the Zambian MFI CETZAM revealed that 41% of clients experienced at least one death in their extended family each year and funeral costs averaged 3-6 months salary (Chu and Hazell, 2007).

MIA puts great emphasis on potential to reach scale when it selects local delivery partner organisations and it, therefore, insures in excess of 3.3 million households.

Affordability is another key indicator of effectiveness of a microinsurance scheme. This is an important aspect because financially excluded households have limited resources to pay for insurance and yet there may often be greater costs associated with delivering insurance to this segment of the population. We found that the drivers of affordability could be allocated to three categories.

The first relates to the characteristics of the insurance policy in question, namely the nature of the cover (compulsory vs. voluntary) and the contract (group vs. individual policy). The Colombian MFI WWF puts its ability to offer voluntary term life cover for as little as US$1 per month down to the fact that it operates with group policies, which drives down operating costs, and that the servicing of the loan is linked to the loan repayments. Similarly, CETZAM attributes the affordability of both its property and life insurance down to the fact that they are compulsory and that they are group policies.

It is important to note that compulsory policies not only reduce the operating costs (e.g. acquisition costs, underwriting etc) of an MFI. They may also reduce losses and risks. This is well illustrated in the case of CETZAM. When the MFI launched a funeral benefits insurance policy in 2002, the policy was voluntary for clients in Livingston and compulsory in all other areas of the country. The losses where the policy was voluntary were considerable. In Livingstone, just over 20% took out a policy in the first year, but the loss ratio[9] was more than 400% compared to 60% in areas where the policy was compulsory. This can be explained by the adverse selection caused by the voluntary nature of the policy (Leftley and Mapfumo, 2006).

A second category of drivers of affordability relates to the target market, namely scale. For the Pro Mujer Bolivia, a large volume – the MFI has over 100,000 active borrowers – combined with the fact that the policy was compulsory for its borrowers helped drive costs down to £0.18 per month. Similarly, a key driver behind the creation of MIA was to achieve scale in order to deliver affordable insurance policies. The reason why scale is so important is due to the principle of economies of scale. There are certain costs that remain constant up to a certain threshold so by delivering a larger number of policies the costs per policy, ceteris paribus, fall.

The third and final group of affordability drivers are related to the nature of the insurance provision model. As we discussed above, large volumes tend to be conducive to affordability, as providers can reduce the cost per policy issued. This lesson was embedded into the provision model of the global microinsurance intermediary MIA. MIA offers extensive back-office services to its local distribution MFI partners enabling them to deliver affordable policies to their clients and to reduce negative institutional impact of introducing insurance on the individual MFIs.

In addition to the above points, it was also mentioned that an emphasis on social corporate responsibility may lead the insurer to subsidise the scheme, making the policies more affordable. In the case of ADIE, both the MFI itself and the insurance company did not gain any commission or profit, enabling ADIE to offer policies at a low cost. This was also raised at by the interviewees from Pro Mujer Bolivia, who argued that the low premium of £0.18 per month was a result of the insurance company's commitment to social corporate responsibility and the large volume of policies.

6.8. Implications for CDFI insurance delivery

The experiences of the MFIs of developing and delivering insurance policies offer some important lessons to UK CDFIs. Their experiences of incorporating insurance products alongside their other financial services are indicative of the nature and the magnitude of the institutional challenges awaiting CDFI wanting to deliver insurance

[9] Net incurred losses / net earned premiums

products. The experiences of the case study MFIs suggest that motivating staff and fitting the marketing and selling of insurance alongside their existing tasks constitutes a key challenge. This is especially the case for loan officers who have targets to meet. Based on the practices applied by the case study MFIs, potential solutions to this include offering bonuses and putting in place a simple and quick method for explaining and selling insurance.

Furthermore, the innovative practices and methodologies used by the case study MFIs offer the UK CDFI sector an understanding of the drivers of take-up and affordability and the challenges associated with these. However, in this area there were arguably fewer lessons that could be immediately applied in the case of the UK CDFI sector. Although compulsory policies avoid adverse selection, increase up-take and reduce administrative costs, CDFIs are unlikely to offer such products because it would contradict the goal of empowering their clients to access financial products corresponding to their particular needs.

Also, the findings suggest, echoing the findings concerning social housing landlord insurance, that the relative lack of scale may have an adverse affect on affordability. This is because scale, according to the principles of economies of scale, enables providers to reduce the cost per policy issued and pass it on to the customer.

That said a potentially very interesting lesson for the UK sector is the finding concerning a centralised back-office system. According to OI and MIA, its centralised back-office system enables the reduction of cost per policy issued by the local microinsurance provider. In turn, this has led to low premiums and has softened the institutional impact on the local providers. A possibility for the UK CDFIs could potentially be to create a joint back-office system to reduce costs.

7. Regulatory review – Barriers and opportunities

7.1. Introduction

This chapter looks at regulatory requirements and the potential barriers and opportunities for CDFIs in distributing insurance products. It is important to note that we here only look at the regulation of insurance mediation and not the regulation of insurers. In the UK insurance legislation, insurance mediation is defined as follows:

> *"'Insurance mediation' means the activities of introducing, proposing or carrying out other work preparatory to the conclusion of contracts of insurance, or of concluding such contracts, or of assisting in the administration and performance of such contracts, in particular in the event of a claim."*

The remainder of this chapter is organised into five sections. The first section looks at the general requirements for being regulated as a general insurance intermediary, while the second examines the requirements for life insurance mediation. The third looks at the different roles that CDFIs could potentially take as insurance intermediaries and the implications of these roles. The fourth section examines circumstances under which CDFIs could be exempt from regulation and discusses the marginal growth in regulation with insurance regulation. Finally, we summarise the findings and identify the most important implications of regulation on UK CDFIs.

7.2. The UK regulatory framework: general requirements

Insurance intermediaries are regulated and supervised by the Financial Services Authority (FSA) under the Financial Services and Markets Act 2000 (FSMA). Explaining and detailing the regulatory requirements for general insurance mediation is not straightforward. There are many overlapping regulatory concerns; there is relatively little written regulation and guidance; and ultimately the application and interpretation of the regulatory framework is at the discretion of the FSA. Indeed, in a recent report, the FSA (2007, p. 2) stated that it's "approach will rely increasingly on principles and outcome-focused rules rather than detailed rules prescribing how outcomes must be achieved."

It should be noted that generally this is positive in terms of costs of the regulatory burden because the FSA will "where possible [discontinue] detailed, process-orientated rules and have relied more heavily on high-level, outcome-focused principles and rules" (FSA, 2007, p.8).

Specifically, the insurance mediation activities that fall under the regulatory framework are effecting or carrying out contracts of insurance as principal, and assisting in the administration and performance of a contract of insurance. However, ultimately so far as FSA regulation is concerned the unit of regulation is the enterprise, not the business area. There is no such thing under the regulations as a firm of which part is regulated, so if anything falls in the net then the whole firm must comply.

If the organisation intends to be regulated at some point in the future then the risk of being pushed into this early has little impact. If the organisation wants to stay exempt for whatever reason then this risk is significant and needs to be dealt with. We discuss the various exemptions in Section 7.5.

If regulated by the FSA, the activity and the insurance intermediary would have to be seen as complying with the four statutory objectives of the FSMA: ensuring confidence in financial system; promote public understanding of financial system; protect customers and; reduce the probability that the organisation in question can be used in relation with financial crime. The businesses regulated by the FSA are supervised according to the risk they present to these statutory objectives.

More specifically, the FSA assesses the extent to which the organisation complies with these objectives by looking at five aspects of the organisation in question:

- ***Staff suitability:*** This includes that staff are appropriately qualified and up-to-date through training and in ensuring that criminal and financial soundness is emphasised when recruiting.
- ***Adequate systems of management control***
- ***Financial stability***
- ***Appropriate business insurances:*** In the case of insurance mediation this would include indemnity insurance.
- ***Appropriate mechanisms to deal with client money:*** Namely that client money is kept separate and safe (e.g. in a trustee account.)

As a key part of being regulated, FSA authorised insurance intermediaries have to complete a Retail Mediation Activities Return (RAMR) with regular intervals, normally every six months.

7.3. Life insurance requirements

Life insurance is subject to a different regulatory regime because it often has an investment element.[10] There are numerous issues that distinguish life insurance from general insurance and that have implications in terms of regulation. We here look at three issues of particular relevance.

First, the intermediary of a life insurance policy has to assess the extent to which the product in question is suitable for the client. On a practical level in terms of offering life insurance to low-income households, there are two salient concerns. The first concern is that taking out a life insurance policy may not be in best interest of people with debt, especially for those with high-cost consumer credit. These clients may be better off paying off their debt. Another concern is that having a life insurance policy may impact upon consumers' ability to claim means-tested benefits. In other words, they may be able to claim fewer benefits as a result and it may therefore not be worthwhile for them to have insurance.

Second, life insurance products are classified as retail investment products and most of these consumers purchase as a result of an advised process[11] (ORC International, 2008). This is of importance for the access to such products for low-income households as research suggests that there is a threshold below which companies cannot profitably sell products as a result of an advised process. According to a study conducted for ABI and the British Bankers Association "any consumer with less than £110 to save monthly or £13,000 to invest as a lump sum is potentially outside the target market for full advice" (ORC International, 2008, p.3).

In part in response to this exclusion, a Guided Sales process was created by the FSA's Retail Distribution Review. The changes proposed under the Retail Distribution

[10] It is important to note that funeral insurance is not seen as life insurance if the amount insured is not greater than the local average cost of a funeral.

[11] Advice is given to people as investors or potential investors and relates to a specific investment (FSA, 2008).

Reviews are to take effect from the end of 2012. Guided sales are defined as "straightforward sales processes for customers with more straightforward needs" (FSA, 2008, p.55). While Guided Sales were developed for both advised and non-advised sales, consultation with industry representatives suggested that "it would be difficult to develop a commercially viable non-advised guided sales model" (FSA, 2009, p. 19). ABI has produced an overview sheet outlining the Advised Guided Sales process, which can be found in Appendix D.

The third and final issue concerns commission paid to the insurance intermediary by the insurer. Depending on the commission terms from the sale of a policy, the provider may want to claw back commission if the policy payments are discontinued. Claw-back applies to any commission paid as "indemnified commission", i.e. paid up front on the basis of 2 or 4 years' premiums being paid by the client. Commission can always be taken in "non-indemnified" fashion where it is paid regularly on the basis of actual premiums paid. This is an important issue as the claw-back of commission was a factor contributing to the closure of the life insurance scheme of CAP.

7.4. Regulatory requirements for introducer, agent and broker status

There are three potential roles for CDFIs as distributors of insurance, excluding the possibility of becoming an insurer. If a CDFI is exempt it can in principle take any of these roles without taking on regulation (see Section 7.5).

The least involved position is one of "introducer" where the organisation connects a consumer with a product, from a specific insurance company but it has no other role. This is more like a sign-posting role, though the introducer is a form of acknowledged intermediary. This is probably the least regulatory rigorous approach, requiring only compliance with FSA sales regulation.

The other term in use is "agent user". An agent can be tied to one provider or it can operate for a panel of insurance companies. It receives a fee per policy sold from the insurance company in question. The key regulatory issue is holding client money. If client money constitutes more than 5% of turnover or more than £10,000 then the money either has to be held in a statutory account or £50,000 has to held in reserve.

A "broker" offers insurance policies from a range of insurers against a commission from the insurance company in question. It facilitates client access to insurance policies and it can also potentially involve an advisory component, though this would need to be regulated. Being a broker may include handling claims and renewals with the customer.

7.5. Exemptions from regulation

There is a general point about whether a business envisages becoming fully regulated in the future. If the organisation intends to be regulated at some point in the future then the risk of being pushed into this early has little impact. If the organisation wants to stay exempt for whatever reason then this risk is significant and needs to be dealt with. There is no such thing under the regulations as a firm of which part is regulated, so if anything falls in the net then the whole firm must comply.

The regulatory conditions are potentially onerous for a start-up situation and there are many exemptions available which would avoid those difficulties. But it makes a big difference whether the aim is to become regulated in due course or, for whatever reason, continue to enjoy unregulated status.

Many third sector insurance schemes have been built around a partnership between existing third sector service providers and an insurance company with an interest in this underserved market. In this situation the insurance partner will certainly be highly regulated, and some of the way in which they meet that regulatory requirement will involve processes and procedures to be followed by their partner(s). The regulatory burden via a regulated partner can be significant without being directly regulated by the FSA.

The only explicit exemptions from FSA regulation are for Local Authority and Housing Associations registered under the Housing Act 1996 or the Housing (Scotland) Act 2001 and are therefore incorporated in the registers maintained by the Tenants Services Authority or Scottish Homes.

All other organisations seeking exemption would have to apply under PERG 5 and PERG 6 (perimeter guidance). The exclusions from regulation are largely contained in the "by way of business" test which tries to distinguish insurance intermediation carried out for business purposes for commercial gain from intermediation that is really a by-product of some other activity. For example there is an exemption available if the insurance part of a business is not its main line of business and contributes less than 10% of turnover.

Managing claims as distinct from effecting contracts of insurance is not a regulated activity. The best way to deal with the question of whether or not a planned venture will or will not be regulated is to set up an exemplar scheme and to go through it with the FSA to generate an assurance that it is exempt. Future questions are then dealt with as departures from the model.

If exempt the CDFIs would still have to report to the FSA with regular intervals to ensure that the organisation is still operating within the parameters of exemption. Thus a key consideration for CDFIs would be the marginal increase regulatory burden from being regulated as an insurance intermediary.

Currently most of the personal lending CDFIs are registered as Industrial and Provident Societies (IPS). This involves very limited supervision. IPSs have to submit a list of approved persons and they are expected to produce annual reports. Members of the CDFA also have to comply with the CDFA code of conduct.

As providers of consumer credit, the CDFIs have to have a consumer credit licence and be regulated under the Consumer Credit Act. This regulation mainly focuses on fair treatment of customers (appropriate and sufficient information, cooling period etc).

Finally, as recipients DWP funding, under the Growth Fund, the CDFIs have to submit quarterly reports to the DWP concerning the performance of the portfolio (data on arrears etc) and the eligibility criteria for accessing Growth Fund loans.

7.6. Discussion: Barriers and opportunities for CDFI participation in insurance provision

The question at the heart of this research project is whether CDFIs are or have the potential to become feasible conduits of insurance for the financially excluded. In turn, the feasibility of such a scheme hinges on the compliance of this scheme with the relevant regulatory framework.

Unfortunately, it is difficult to accurately ascertain the regulatory implications for CDFIs if they were to become insurance intermediaries. First, the CDFIs may qualify for an exemption from regulation, as the social housing landlords have. However, in the absence of detailed parameters, it is difficult to tell whether CDFIs would qualify until the FSA has evaluated a specific scheme. The most likely exemption for CDFIs would be that insurance mediation is a by-product or at least not the main stay of their business.

Second, if the CDFIs were to be regulated, the numerous overlapping regulatory concerns and the move towards outcome-based regulation, makes it difficult to ascertain the exact implications of being regulated.

However, it would involve regular reporting to the FSA concerning financial status (e.g. balance sheet, profit and loss account, professional indemnity insurance etc), human resources (training and competence) and management systems (conduct of business, processes to deal with conflicts of interest) in order to prove that they comply with the four statutory objectives under FSMA. Although the CDFIs currently have some limited reporting in relation to DWP funding and have to comply with some relevant regulation under the Consumer Credit Act, becoming regulated under the FSA would most likely lead to an increase in the regulatory burden and therefore an additional cost for CDFIs to meet.

8. Conclusions: Features of CDFI insurance provision models

In the preceding chapters of this report we have applied a litmus test on UK CDFIs in order to establish the conditions under which a CDFI insurance provision scheme could be justified and feasible. The viability and need for such a scheme would depend on; a) that a latent demand for insurance exists among CDFI target clients; b) that existing insurance schemes aimed at the financially excluded are insufficient to meet this latent demand; and c) that internationally tested models compliant with the UK regulatory framework exists.

8.1. Is there a latent demand warranting CDFI provision of insurance?

The findings of the focus groups organised with actual and potential CDFI clients suggests that there is a latent demand for, namely, life and HCI policies. However, the comments made by the focus group participants suggest that meeting target CDFI clients' expectations of a desirable insurance policy is a tall order. Based on the focus group discussions, target clients want a simple and comprehensive policy covering all eventualities, including breakdown cover. In addition, they want the product to be affordable, though there appears to be a trade-off between cost and probability of the event in question, and many would like to at least have the option of paying in cash. Preferably, the sales would occur on a face-to-face basis, whereby the products and the fine print are well explained. Finally, target clients must be able to feel that they can trust that the insurer will pay out in the event of a claim and that the claims process is respectful and does not criminalise the claimants.

If a CDFI insurance delivery scheme falls short of one or several of these expectations, the CDFI sector risks damaging its reputation and standing among existing and potential clients. Indeed, the focus groups revealed very negative attitudes to insurance policies and insurance companies, especially among those participants with negative experiences with insurers. If CDFIs are to distribute insurance policies, clients' negative experiences with claims settlement or cancellation fees may have a negative impact on the reputation of CDFIs, even though it may be the fault of the insurance company rather than the CDFI.

That said, the findings also indicate great opportunities for a well-designed CDFI insurance delivery scheme, though we would recommend not starting with HCI as we explain below. Face-to-face sales and accompanying light-touch advice is a key component of the CDFI business model. CDFI staff have built up considerable experience in explaining relative complex financial products to people with low financial capability. CDFIs already have experience in grappling with the scepticism of target clients towards electronic means of transfer and direct debits, and many CDFIs also have a positive track record of enticing clients to shift to direct debits.

8.2. Are existing insurance schemes sufficient to meet this demand?

The results of the focus groups were indicative of a latent demand for insurance policies. To what degree do the existing UK schemes meet this demand? Unfortunately, the lack of data makes it difficult to ascertain whether the existing schemes are making inroads in lowering the proportion of uninsured households. The estimates would indicate an average take-up of 10%.

Yet the ABI (2007) reports that despite the fall in costs in real terms of around 40% from 1994 to 2007, the proportion of the population with home contents and building insurance has remained relatively stable. This seems to be confirmed by data cited by Demos and Safe (2005). Between 1994/1995 and 2003/2004 the proportion of registered social landlord tenants fell from 63.4% to 59.2%, but the proportion of council tenants without insurance increased from 54.4% to 60.8%. The data from the most recent FRS suggests that the proportion of social tenants without insurance has remained stable at around 64%.

The interviewees highlighted four issues that CDFIs must grapple with to make a dent in the number of uninsured households. First, they must overcome a deep-rooted distrust among low-income households of insurers. Second, many low-income households believe that they do not have enough assets to warrant taking out an HCI policy. Third, a lot of tenants mistakenly believe that they and the contents of their accommodation are protected against a range of incidents, such as leaking pipes. Finally, many elderly tenants, who have a greater propensity to take out insurance, have already taken out an HCI policy with Age Concern, leaving mainly the hard-to-reach consumers.

Also, simply relying brokering existing mainstream products is challenging as often end up being too costly, as OFL experienced, and as they are not adjusted to the needs and wishes of low-income consumers. Rather, a more sensible option would appear to be rolling out a generic no-frills HCI policy similar to those developed for social housing landlords. The affordability of such policies is a function of three factors: the bargaining power of social landlords as corporate clients and in view of housing stock, the implementation of security measures and good claims performance.

Achieving affordable insurance products may prove to be a major challenge for CDFIs in that they have a much smaller target client base compared to social housing landlords. Another potential threat to maintaining affordability and at the same time ensuring that delivery costs are covered is the insistence on the part of numerous insurance companies on the use of insurance brokers. If both the broker and the CDFI charge a commission to cover delivery costs, the premiums paid by the clients may end up costing more.

In terms of sustainability, the main lessons come from Age Concern and OFL. A key lesson is that cost transfers through effective partnerships can be vital in reaching sustainability. However, finding appropriate partner organisations may prove challenging given that social housing landlords, one of the main partner organisations of the CDFI sector, are already delivering their own insurance product.

8.3. Do viable models for insurance delivery through UK CDFIs exist?

In order to explore whether viable CDFI insurance delivery models exist to meet the latent demand not met by other UK schemes, we looked at a) the models applied by other MFIs internationally and b) on the UK regulatory framework concerning insurance.

The experiences of the MFIs of developing and delivering insurance policies offer some important lessons to UK CDFIs. Their experiences of incorporating insurance products alongside their other financial services are indicative of the nature and the magnitude of the institutional challenges awaiting CDFI wanting to deliver insurance products. The experiences of the case study MFIs suggest that motivating staff and fitting the marketing and selling of insurance alongside their existing tasks constitutes a key challenge. This is especially the case for loan officers who have targets to meet. Based on the practices applied by the case study MFIs, potential solutions to this include offering bonuses and putting in place a simple and quick method for explaining and selling insurance.

Furthermore, the innovative practices and methodologies used by the case study MFIs offer the UK CDFI sector an understanding of the drivers of take-up and affordability and the challenges associated with these. However, in this area there were arguably fewer lessons that could be immediately applied in the case of the UK CDFI sector. Although compulsory policies avoid adverse selection, increase up-take and reduce administrative costs, CDFIs are unlikely to offer such products because it would contradict the goal of empowering their clients to access financial products corresponding to their particular needs.

Also, the findings suggest, echoing the findings concerning social housing landlord insurance, that the relative lack of scale may have an adverse affect on affordability. This is because scale, according to the principles of economies of scale, enables providers to reduce the cost per policy issued and pass it on to the customer.

That said a potentially very interesting lesson for the UK sector is the finding concerning a centralised back-office system. According to OI and MIA, its centralised back-office system enables the reduction of cost per policy issued by the local microinsurance provider. In turn, this has led to low premiums and has softened the institutional impact on the local providers. A possibility for the UK CDFIs could potentially be to create a joint back-office system to reduce costs.

Ultimately, the feasibility of a CDFI insurance delivery model hinges on the compliance of this scheme with the relevant regulatory framework. Unfortunately, it is difficult to accurately ascertain the regulatory implications for CDFIs if they were to become insurance intermediaries. First, the CDFIs may qualify for an exemption from regulation, as the social housing landlords have. However, in the absence of detailed parameters, it is difficult to tell whether CDFIs would qualify until the FSA has evaluated a specific scheme. Second, if the CDFIs were to be regulated, the numerous overlapping regulatory concerns and the move towards outcome-based regulation, makes it difficult to ascertain the exact implications of being regulated.

However, it would involve regular reporting to the FSA concerning financial status (e.g. balance sheet, profit and loss account, professional indemnity insurance etc), human resources (training and competence) and management systems (conduct of business, processes to deal with conflicts of interest). Although CDFIs do already comply with some of the likely regulatory requirements and have some reporting mechanisms in place, FSA regulation would likely result in a considerable increase in reporting and compliance procedures.

8.4. Next steps – towards a model for CDFI insurance provision

In many ways, offering HCI would be a natural next step for CDFIs. Increasing up-take of HCI is a key part of the government financial inclusion agenda. The IWG has highlighted it as the insurance policy that policy efforts should focus on. Moreover, many of the clients of the CDFIs are likely to be uninsured and therefore vulnerable to burglary, fire and floods. Also, in this study we have found that there is a latent demand for appropriately designed, serviced and managed HCI policies. National statistics suggest that the existing schemes have yet to make considerable inroads into reducing the proportion of uninsured households.

Nevertheless, having carefully considered the basis for a CDFI-model for HCI provision – demand, experiences of UK and international insurance schemes and regulatory implications – we recommend that the CDFIs do not offer HCI, at least for the time being. There are three reasons for this recommendation.

First, given the strong criticism and deep-rooted scepticism of HCI policies and the providers these, we believe that there is a considerable reputational risk for CDFIs by taking on HCI. Dissatisfaction with claims handling and cancelling may well negatively affect the reputation of the CDFI sector and discourage new and existing clients from taking out loans.

Second, the evidence from the UK and the international case study research suggest that scale is a key driver of affordability, due to bargaining power and economies of scale. Yet the number of CDFI clients is probably only in the region of 10,000. Even a relatively high up-take of 25% would constitute a small market. Hence it is unlikely that the CDFIs would be able to offer the affordable, comprehensive and simple policies wanted by their clients.

Finally, although the up-take varies, there are potentially effective schemes in operation in the UK, such as Age Concern and Social Housing Landlord Schemes. Especially, the focus group participants very much liked the idea of paying insurance premiums with the rent. Both Age Concern and social housing landlords can rely on a considerable scale to ensure very competitive policies for their clients.

Hence, rather than developing a scheme for delivering HCI, we suggest the CDFIs examine the possibility of delivering a joint life and credit life policy along the lines of the policy developed by Pro Mujer Bolivia (see Section 6.3 for further detail). Such a policy would offer protection for single-income households and households with dependents. Unlike the Bolivian MFI, we would suggest that the policy should be offered on a voluntary basis. The policy could be linked to the loan term, which is typically a year. This could appeal to customers as it is bundled with an existing payment and could reduce operating costs per policy issued.

There are several reasons for why we recommend that the CDFIs distribute life insurance. First, it is a potentially popular product. Several of the focus group participants were either considering or had already taken out a life insurance policy. It also has historically been a policy that has sold well among low-income groups provided it has been distributed in a way appealing to this segment of the market. The best illustration of this would be the popularity of industrial branch insurance (Burton et al, 2007). Second, the claims handling is less controversial because it in most cases only require the claimants sending in the death certificate. Third, relative to HCI life insurance is a simpler and probably more intuitive policy. It is likely to be more obvious for people whether they need to consider taking one out or not (i.e. single-income households, dependents etc). This may reduce the acquisition costs.

However, an important consideration in offering insurance is the relative increase in the regulatory burden. The CDFIs may be exempt from FSA regulation on the basis, most likely on the basis that the insurance mediation is only a minor part of the business (known as the "by way of business" test). The additional burden of FSA regulation would have to be detailed and carefully considered.

We suggest that an individual CDFI or a consortium of CDFIs approach an insurance company to develop and roll out a simple and clear life and credit life insurance, possibly marketed as CDFI product. The commission should be taken on a non-indemnified basis to avoid claw-back.

We believe that, unlike HCI, if the policy is sufficiently affordable, it could have a positive reputational impact on the sector, as it is seen as helping households when at their most vulnerable.

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