

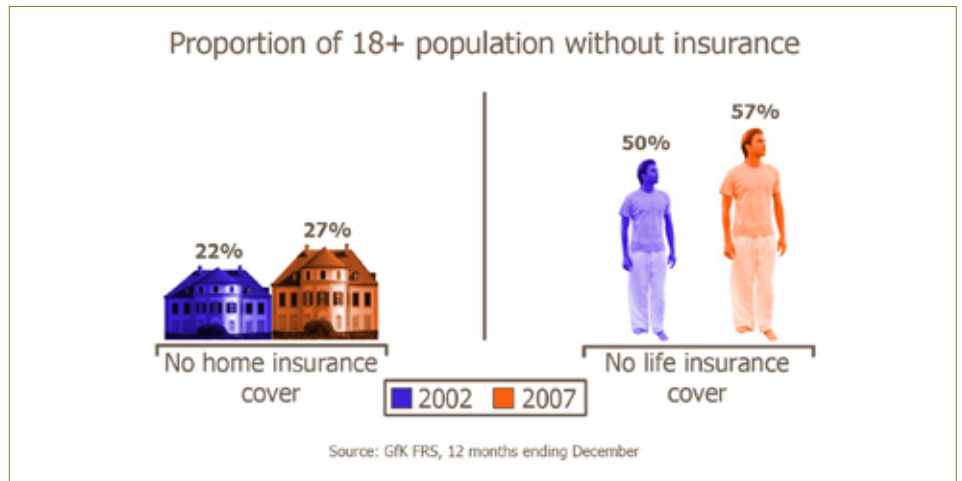
The Insurance Gap

A recent Which? report suggests that consumers are wasting money on “useless” insurance policies, for example, buying ID fraud cover when it may already be provided free of charge by their bank. Despite consumers wasting money on such policies, many are still under-insured, or even uninsured, in the more critical areas – namely household and life insurance.

Recent events highlight the need for insurance

The summer 2007 floods and the recent minor earthquake in the UK have brought to the fore the importance of being adequately insured. However, our Financial Research Survey (FRS) suggests that 27% of the 18+ population have no home insurance cover in place; an increase on the 22% we saw back in 2002.

Two key uninsured groups are the lower income (under £17.5K personal income per annum) pre-family group, and students. Amongst the former, 63% have no home insurance cover. ABI statistics show that our most deprived communities have a far higher incidence of arson, burglary and flooding than our most affluent communities, meaning that this segment of the population is arguably that which needs cover the most.



Similarly, 58% of university students have no home insurance cover, despite owning high-value items such as laptops, MP3 players and mobile phones.

It's not just homes and possessions that need protection

This home insurance gap is worrying enough, but we are also seeing life insurance penetration showing a steady decline. It seems that the key trigger for purchase is still mortgage arrangement – but, with the number of first-time mortgage buyers falling, this opportunity is shrinking. While over 80% of those with a mortgage have life cover, other segments of the population are not as adequately insured. Those with the largest gap relative to

responsibility are those with no mortgage, but who have dependents aged under 15 living at home: only 25% of this group actually have any cover.

So, how can the industry plug these “insurance gaps”? The ABI’s financial inclusion plan should assist in doing so by highlighting the importance of insurance, better educating consumers on the subject and improving access to affordable cover. However, there are many consumers who can afford to purchase insurance yet choose not to. We believe that better promotion of products by insurers and intermediaries could help to plug this non-income related gap.

Cross-selling in the world of the Internet

Many high street brands have been affected by a decline in home insurance/ mortgage cross-selling, partly due to steady growth in Internet arrangement. However, cross-selling seems to be the most appropriate way of targeting our low income pre-family group, since 96% of this group have a current account, and 72% manage this account via branch.

Conversely, we find that university students prefer Internet usage and dislike branch usage, which suggests they are not such a prime cross-sales target. We believe that perceived expense and lack of awareness of the need for insurance are key issues amongst this group – and this is a group that is possibly under served, since few insurers specialise in students. Niche providers tend to perform well in the general insurance markets, so there may be an opportunity here for new, targeted providers.

Tying insurance into key life events

In the life insurance market, cross-holding – despite showing some decline – is still key for those taking out a new mortgage. But there are other key life events that are overlooked. As pointed out by Nick Kirwan of the ABI, “while financial advice may be easy to obtain while taking out a mortgage, there’s no financial advisor present at a birth”.

Those with young children may simply not be as aware of the need for cover as new mortgage buyers, or may simply see life cover as an expense that can be cut back. Consumers in these life stages



tend to be amongst the highest users of credit products, and so may be feeling the squeeze more than others.

A double-pronged approach would help to lift life insurance penetration amongst this group:

- The importance of protecting one’s family can be highlighted more effectively by companies with whom consumers have an existing relationship.
- The timing of highlighting the importance of life cover could be improved, possibly through a tie-up with information sent to consumers regarding Child Trust Funds.

It is evident that there is still more work to be done to reduce this insurance gap; the industry is working hard to improve ease of access for consumers, and the size of the gap – especially amongst the groups mentioned above – represents huge potential for insurers. In these competitive markets, where it is becoming difficult to obtain new business, the possibility of a larger base of consumers to target provides opportunities for insurers and intermediaries alike.

For more information, please contact

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