Understanding the supply chain of a decision

How insurance contributes towards financial inclusion and affordability

Introduction

Financial inclusion is a core priority of regulators and businesses. Being able to offer the best-in-class experience and make accurate decisions is integral and an ongoing strategic investment for nearly every business.

There are many dimensions to financial inclusion. Exclusion from financial services caused by limitations in a person's credit file is one example that has significant consequences, from a lack of access to inflated costs. However, inclusion isn't limited to those who demand credit. It is a widespread challenge for every industry. In non-credit markets exclusion provokes unfair pricing – which could be caused through a person's lack of access to online channels – or again from limited data in order to price fairly.

It is also not restricted to onboarding either. Through the lifecycle, being able to understand what products and services are relevant to the individual at each point in time is integral. Being able to identify this allows you to better manage and personalise experiences – ones that are risk free for all.

We believe the key to any customer-centric strategy is having the best-quality data and the best quality analytics to understand and extract insight from that data – at speed, at scale and to drive innovation. We also believe that partnerships are vital to the future of all markets and that adopting a partnership approach provides more opportunity for new thinking, innovation and better outcomes.

In this paper we explore the interconnection of services, focussing on Banking and Insurance. Banking is about providing financial services to consumers across credit and debit products. Insurance is about insuring a person, their belongings, their pet, their car or their home. And of course, much more.

With customer trust placed as a top priority among every business it is important to understand how both areas interlink. To do this you need to be able to access the information that can provide this insight. Data is integral to this, as are the analytics in order to extract the insight contained within. New, non-traditional data sources such as bank account transaction data (Open banking) is one of the new-found sources that provide a rich source of information on an individual; including the ability to understand the actual behaviours of each individual.

The good news is that quick and simple affordability checks are available for insurance using traditional bureau data and can be delivered through the iCache platform.

Factoring in the wider supply chain: financial inclusion and insurance

So far much of the dialogue surrounding affordability has been focussed on lending specifically, but the need for responsible decision making is arguably just as pressing in the other industries.

As the Financial Inclusion Commission stated in their Insurance Inclusion Report, there's been much discussion around improving access to banking and payment services, savings, and affordable credit, while insurance has so far been forgotten.

It's also worth noting that the impact of not having adequate cover can be far more serious, particularly for those with lower incomes. In the introduction to its report, the Financial Inclusion Commission notes that: 'Insurance gives people the peace of mind to plan beyond day-to-day expenditure, protects against financial hardship, and helps build financial resilience in an uncertain world.' Without that safety net, vulnerable people can become even more so.

The report delivers some sobering statistics. Of those on a salary of £15,000 or less, 60% have no contents insurance and would struggle to replace damaged or stolen goods. They may also live in areas of higher crime and be at greater risk. Also without contents insurance are approximately 16 million people in rented or owner-occupied accommodation.

For these groups, the consequences of fire, flooding or theft could be far reaching. They might be forced to take up high-cost credit, for repairs or replacement, leaving them even worse off financially. They may lose their car or be unable to pay travel costs, meaning they're unable to work and support themselves.

The Financial Inclusion Commission claims that 'even those on low incomes could currently insure their possessions for around 33p a day (or less) if simple low-cost ways could be found to reach them'.

The reality of the risk:

- Social-rented households are almost twice as likely to be burgled as owner–occupied households
- Arson rates are 30 times higher in lower income communities than affluent ones
- Low-income households are 8 times more likely to be living in tidal floodplains than people in more affluent households

Source: Helping Tenants Protect Their Possessions, Association of British Insurers, 2010

Towards more accessible cover

On the demand side, reasons for exclusion include a real or perceived lack of affordability, behavioural biases, a lack of trust, low levels of financial capability, low usage of digital channels including low digital skills, living in high-risk areas and preferred payment methods which are not met by the industry.

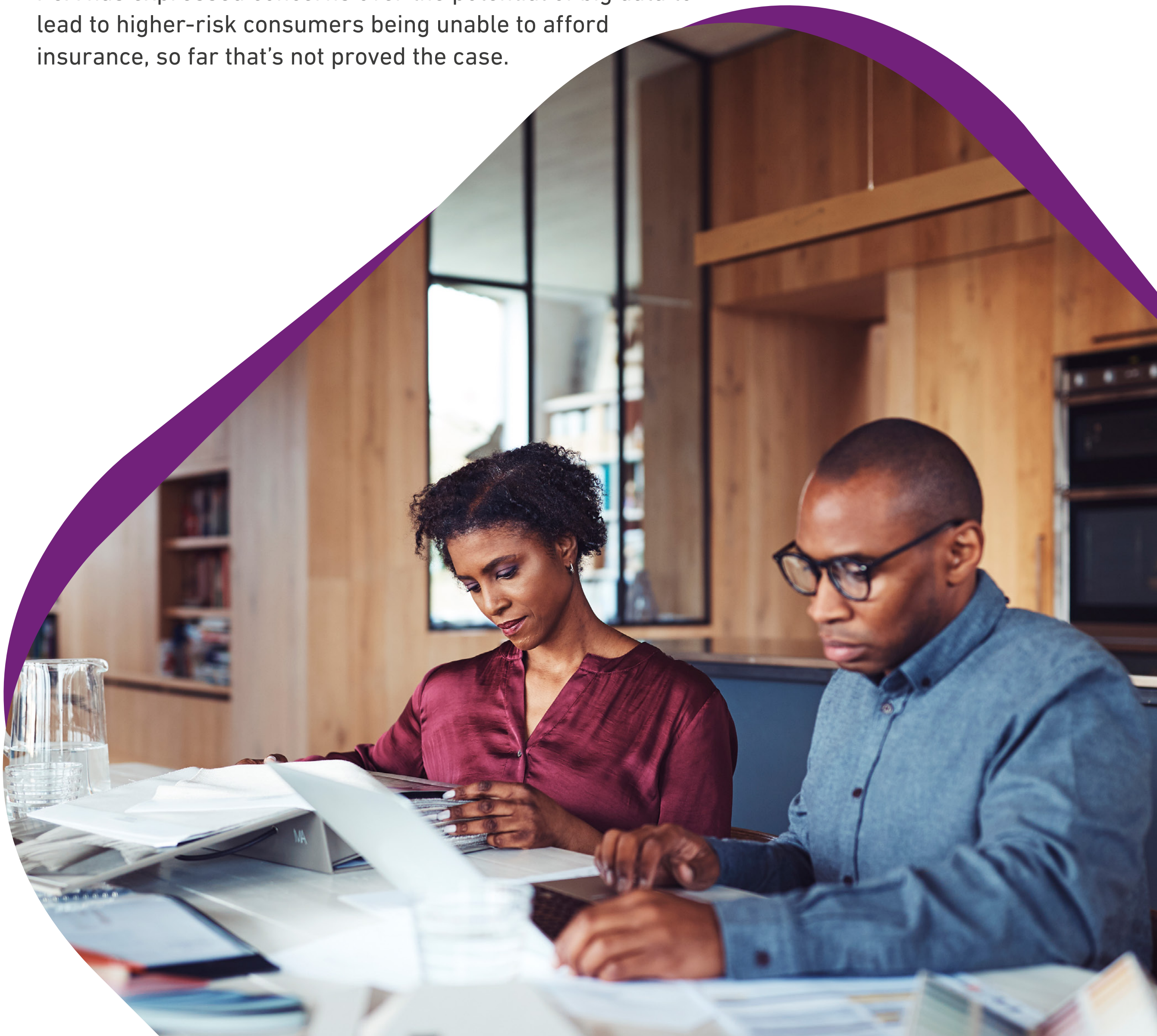
On the supply side, reasons include complex product design, tax increases, the growth of digital channels, increased segmentation and the use of big data. These can add to the barriers to access, affordability and engagement with insurance - specifically contents insurance.

So how can insurers make their cover more accessible? Perhaps a different approach to the sales process would be a valuable first step. The traditional view is that this needs to be short and slick, capturing essential details quickly and fitting the standard templates used by a price comparison website. But by drawing this process out and entering a dialogue with the customer, exploring their needs and explaining the terms of cover, perhaps we can help bring about a shift in thinking and awareness.

Maximising data - including non-traditional data sources

Insurers can bring in pre-emptive services too. For example, prepopulating forms using data extracted from open sources, or from historic captured data, would help you understand more about a person's needs - but also relieve friction which is already having a negative impact on the user journey (UX). Open Banking, which allows providers to instantly access a person's bank account transactional data, can provide insight into any gaps in cover. It can provide behavioural analysis, for example, how someone has behaved with their finances over a period of time – chosen to miss payments, changed suppliers and much more useful and informative insight that traditional methods don't provide. From here, you might see that an individual has home insurance, but not life or pet cover. Understanding an individual's income and outgoings can be hugely beneficial for both you, and your customers. It can also speed things up and allow for more personalisation.

There are many opportunities provided by new data sources. Open Banking is just one – Utility data, Rental data, Wealth data and more all offer valuable insight, especially when coupled with sophisticated analytical tools. While the FCA has expressed concerns over the potential of big data to lead to higher-risk consumers being unable to afford insurance, so far that's not proved the case.



Redefining customer-first propositions

Going back to the issue of accessible home insurance, perhaps new types of cover are needed. Currently the most widely sold product in the market is a package combining buildings and contents in one policy – in other words, targeted primarily at homeowners. This type of insurance is held by 49% of UK adults, while just 12% hold contents cover only. For customers, a combined policy offers convenience. For insurers, bundling contents insurance in with buildings cover – which is of course compulsory for mortgage holders – simply helps to sell more.

So, should we consider default contents insurance for rental properties? So far data shows that when renters are asked to opt in to contents insurance with rent, take up is relatively low. Some have suggested insurance with rent schemes should instead run on an opt-out basis, like the way in which employees have been automatically enrolled into pension schemes.

Or perhaps the solution is a more modular, customisable approach that lets households pick the types of cover they need? Consider a younger customer, moving into rented accommodation. While they may have little in the way of household items, they may well have a small number of high-value items, such as mobiles and other tech. Here, a more modular approach would compete with individual insurance products offered by mobile phone providers and gadget insurers by offering wider cover and packaged affinity schemes, such as the Endsleigh student insurance scheme endorsed by the National Union of Students (NUS).

Another possible solution would be to offer a basic insurance product aimed at those on lower incomes or with fewer possessions to insure. According to the Financial Inclusion Commission's research, such products are already available to tenants, but there may be a need 'for a more basic cover to set up a clear alternative to the mainstream combined home buildings and contents insurance package aimed squarely at the owner occupier'.

Being transparent in your communications

Clarity of information and increased transparency is certainly something that can be improved. We know that some people struggle with digital channels and others find the jargon surrounding policies confusing. As the Financial Inclusion Commission states, a comprehensive, industry-led signposting service for people struggling to find affordable cover would be a step in the right direction.

Our own research shows that people who are well informed and shop around – for example, using price-comparison sites or digital comparison tools – get the best deals, while those who have no interest in switching get the raw deal, so much so that they're charged more for the same goods and services.

"Transparency, brought through easy-to-read communications is essential if trust is to be built.'

Providing a fairer future – treating customers as people not data

Whether we're talking about credit or insurance, what emerges most strongly is the need to treat customers as individuals, not segments, and to design product propositions around them. Another way to protect people is to help them take control. By becoming more financially aware, people can make more sustainable choices, no matter what happens in the economy. In these uncertain and unsettled times, industry and consumers alike need to be better prepared.

Today, both lenders and insurers can take positive steps towards supporting customers and being more inclusive. All, subject to consent, can today access bank transactional data that offers valuable insight into a person's behaviours. You can see gaps in cover, you can identify whether someone is or may be vulnerable. You can also make more accurate assessments about what a person can afford based on their whole financial situation. It is no longer about looking at single tasks. It is about understanding your consumers better, providing them with access to the most appropriate – and affordable – products and services, yet also continuing this level of personalisation across the entire lifetime of a product.

Driving inclusivity across motor insurance

While we have covered the challenges relating to a lack of home insurance, there is also motor insurance to consider.

In our research we found that most people (71%) opt for increased excess in their premiums in order to make the policy more affordable. The challenge here is that should there be an incident, the policy holder may well have uninsured themselves as they can't afford the excess they have. Additional research conducted shows how a third of people chose to not buy a vehicle due to the cost of insurance. In younger groups especially, the cost of insurance was more than the cost of the car.

There are obvious repercussions to this. Firstly, you and your customers are at risk should there be a need to claim. Secondly, if the vehicle is unusable and therefore unfixable, there could be a a negative domino effect on the person caused by an inability to travel to work resulting in a much more severe impact on their financial stability.

The reality is that in 2018, 145,000 uninsured cars were taken off the road. More than 1,000 a week were crushed and £256m was paid out by the Motor Insurance Bureau (MIB) in compensation. This consequently forces a rise in premiums to cover such losses, but it also causes significant distress for those who have encountered the impact of an uninsured driver, adding further friction and negativity into the customer experience, and around insurance as a whole.

Another angle to consider is the whole cost of the car. While insurance is one part of the deal, there is servicing, MOT, running of a vehicle, potential finance arrangements and more. Often, specifically for younger drivers, the incentive of a year's free insurance is a golden ticket. However, the finance plan spans longer than a year and come the second year, the owner is suddenly faced with a bill which is, on average, over half of young drivers' running costs.

This is where affordability is particularly important. Understanding the cost implications of vehicle ownership throughout the policy can help you make a far more accurate assessment of affordability, whether you are a lender or an insurer. Obviously this would be quite significant and would require collaboration to design the value chain. But, with competition on the rise - spurred by not only new entrants - but traditional companies breaking the mould and moving into new territories (for example many Banks today are looking to serve the whole of market), the approach wouldn't be blue sky thinking - but a growth opportunity worth exploring.

Affordability checks in insurance

In theory, while proving challenging and certainly provoking industry backlash, an insurance premium paid through instalments is a loan – albeit less risky than a financial loan. If the instalment isn't paid there are broader risks. Instalments often cost hundreds of pounds more than a one-off payment, and with people's financial stability already strained, the amount choosing to pay by instalments is rising.

> Running a car is never cheap, but our latest Young Drivers report shows that the cost of running a car for young drivers has continued to rise over the past year. This is primarily driven by an increase in the cost of fuel and motor insurance. On average, Compare the Market data shows a 17-24-year-old driver will now pay £2,442 to run his or her car in the first year.
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> **Motor Insurance Bureau (MIB)**

iCache Affordability Check – It's the smart way to protect customers and your organisation

Experian iCache Affordability Check is the quick and easy way to check whether a consumer can afford to pay for your insurance products and services. All provided through our dedicated insurance data delivery platform iCache, helping you to also meet FCA guidelines.

Using just three simple commonly collected pieces of information; the name, address and date of birth of the applicant, we can then provide the personalised insight about an individual required for you to make informed decisions as to whether the product selected is affordable for them.

Whether used at the point of quote giving the best customer experience; or at the point of sale; delivered in real time; or as a batch process; iCache Affordability Check gives you confidence that every customer can afford their insurance policy payments. The result? You're working in the best interests of the customer while minimising your risk and creating new opportunities to strengthen your relationship.

To find out how we can help your business and help you to meet the FCA Affordability guidelines please get in touch: gtmcontactus@experian.com

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