

Issues affecting consumers in the general insurance market

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Summary

- The biggest challenges within the general insurance sector, as in many other financial services, seem to relate to culture and how consumers are treated within the sales and post-sales process.
- In particular, there needs to be a re-balancing of information, and matching of expectations about what is being offered, between consumer and provider.
- Long policy documents may be transparent and clear, but they are seldom read and understood, as any of us who click through computer software and privacy agreements without reading them will understand.
- Ensuring consumers are easily able to determine what is covered within a product, and are able to choose the right cover based on this information, is in the interest of all sides.

Insurance is an unavoidable part of life for most people and general insurance products cover various aspects of our daily operations. In recent times, the general insurance market has been forced to adapt to changing societal shifts, consumer demands, and the ever-developing technological advances. Some adaptations have been achieved well and in the interests of consumers, others not so well, creating detriment and dissatisfaction. This paper sets out several issues that the Financial Services Consumer Panel has identified as currently affecting consumers of general insurance products, and summarises the challenges these issues pose for consumers and industry.

Historical development of the general insurance market

The basic insurance relationship has not changed much throughout history. The Babylonians developed a system that was recorded around 1750 BC and used in early Mediterranean shipping. If a merchant received a loan to fund the cargo to be carried on his ship, he would pay the lender an additional sum in return, if the lender guaranteed to cancel the loan should the shipment be stolen or lost at sea. Of course, consumers can now shop around and are no longer tied to insuring at the point of purchase. Yet then, as today, insurance basically remains the same: “an arrangement by which a company or the state undertakes to provide a guarantee of compensation for specified loss, damage, illness, or death in return for payment of a specified premium”. It also continues to be a product where the consumer finds it hard to determine the value before, and even after, the purchase.

However, in recent decades, there have been fundamental changes to the way that consumers engage with insurance products and services. The days when at least one big insurance company occupied some premium retail space on the high street are all but gone. The internet, including comparison websites, is now a fundamental part of the buying process. And while comparison sites are popular with consumers, and have enhanced competition within the market (to the benefit of some of the smaller insurers), they have also put pressure on insurers’ traditional business models.

Issues and challenges

The issues identified by the Consumer Panel, through discussions with regulators, consumer groups, insurers and intermediaries, can largely be categorised into two groups: pre-sale issues – in particular relating to information provided before a decision to purchase; and post-sales - largely relating to claims handling and the complaints process.

Pre-sales issues

Accurate front-end information for consumers is vital in empowering them to make the right purchase decision. Yet it is not always sufficiently available and often it is stripped down to price alone. While price is always going to be a fundamental consideration in any purchase, wider considerations need to be taken into account, particularly given the devastating impact insufficient insurance cover can have.

Although this issue is widely recognised, and some work has been done to address it, achieving the required cultural shift in the way products are designed and presented, against the backdrop of tightening personal budgets, will be a key challenge for consumer groups and industry.

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Accompanying the growth in comparison sites and internet usage has been the large increase in basic insurance policies with charged-for extras. Certain features, historically included as standard, are now additional extras for which consumers are required to pay.

This approach is fine in theory, as long as there is a degree of industry-wide standardisation and basic cover. Consumers need to be confident they will get certain essential features with all policies, and be provided with the ability to easily extend cover for additional activities or considerations. In the case of travel insurance, for example, it could be argued that consumers should be able to reasonably expect a standard minimum for cancellation, loss of baggage and medical cover in all policies, starting with the most basic. From this starting point, they can then easily move up to additional levels should they want more cover or have additional requirements, such as including dangerous sports or going on an adventure holiday.

In housing, the standard format of a basic price based on bedrooms and type of building seems a good model. Of course, the design of basic products is extremely important. If too much is stripped out, the more opportunity there is for disproportionate ancillary charges. Consumers with particular needs or characteristics can find it difficult to access well-priced cover. Increasingly, the process of buying an insurance policy resembles that of booking a budget airline flight.

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The post-sales and claims management experience

Undoubtedly the biggest areas of dissatisfaction for consumers, and the greatest challenges for industry to address, occur in the post-sale space. This is particularly acute when consumers need to claim or make a complaint: most general insurance complaints (which are rising annually) to the FOS relate to claims handling. Discussions suggest that consumers perceive a culture within the industry aimed at minimising claims and treating them all as potentially fraudulent. Insurers, for their part, are wary of consumers making fraudulent claims. This contention, possibly resulting from a mixture of unrealistic consumer expectations and insurers aggressively acting to achieve the lowest possible price, does not appear to have served either side very well.

The use of third parties to manage, or as part of, the claims process has added to consumers' levels of dissatisfaction. The outsourcing of the claims management and loss adjuster functions is perceived by some to have had a detrimental effect on customer service. It also raises questions around payment and incentivisation structures. Conflicts and inappropriate incentives throughout the value chain create additional costs, prevent the market working effectively, and lead to poor outcomes for claimants.

Conclusion

The biggest challenges within the GI sector, as in many other financial services, seem to relate to culture and how consumers are treated within the sale and post-sale process. In particular, there needs to be a rebalancing of information and matching of expectations about what is being offered between consumer and provider. Long policy documents may be transparent and clear, but they are seldom read and understood, as any of us who click through computer software and privacy agreements without reading them will understand. Ensuring consumers are easily able to determine what is covered within a product and are able to choose the right cover based on this information, is in the interest of all sides.

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