NEWSLETTER
RISK MANAGEMENT

THE GENEVA ASSOCIATION

No. 55, February 2015

The Upside of Risk Management: Delivering Fair and Appropriate Outcomes for Our Customers

Interview with Marco Vet[+]

How do you compare the insurance industry with other industries, in terms of customer satisfaction of products and services?

Generally speaking, I believe most of the customers of insurance companies are quite happy about their insurer. We see increased customer satisfaction due to more transparent products, better and more meaningful information provision on the purchase, and straightforward claims-handling processes. In that regard, I do not see a big difference between the insurance industry and other industries when it comes to customer satisfaction.

OK, there has been some room for improvement. Basically, customers expect the same from an insurance product as they would expect from any other product they buy like, for example, food and consumer electronics. They want to have a decent product that meets their expectations at a reasonable price, and that need has not always been met by the industry. Transparency is, for all the decisions that consumers take, absolutely key. They need to be in the position to assess both the quality and the price with relatively low effort. What makes insurance products a bit different from other products is the fact that the risks covered by the insurance policy can sometimes be complex and the time that passes between the purchase of the policy and the claim moment can be quite long. This especially counts for life policies. As a result, it is for a consumer not always easy to predict the quality of the product over the total lifetime. Furthermore, for some insurance products, these characteristics make it difficult to assess upfront whether the policy indeed serves their true needs and whether it is reasonably priced. At the same time, we should not exaggerate the difference. Not all the products are that complex, and there is a tendency towards more and more standardised products. Especially in the area of P&C insurance, we nowadays see products that are fairly easy to compare, and this makes the choice for customers easier. I definitely encourage this development and I do believe that, in the near future, insurance products will be further standardised. At the same time, there will always remain products that are more complex, given the nature of the risks they are supposed to cover. For these products, Insurers have the task to make sure the customer truly understands the risks that are covered via the policy. If a product is not suitable for the client, the insurer should give honest advice and direct her/him to other and better ways to cover their risks. The goal for an insurer should always be to deliver fair and appropriate outcomes for its customers! As we say within Achmea: the customer's voice needs to be a permanent factor in our business operations.

Can you give some examples of market misconducts that hurt the reputation of insurers?

Striking examples of misconduct are the private pensions scandal and, more recently, the PPI mis-selling in the U.K. market. A more nearby example for me is the life investments policies that were sold in the 80s and 90s in the Netherlands. Driven by advantageous fiscal treatment and booming stock markets, these policies were extremely popular. It looked as if nobody wanted to see the risks attached to these policies and there would be only winners in this game: the customers, the advisors and the insurance companies. Too good to be true and indeed, it was not true. It taught us as insurers some hard but necessary lessons on, for example, product development, cost loadings,

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and the impact bonus structures can have on the advice given to consumers. Furthermore it made clear to me that, for risky products, not only the best-case outcomes should be shown, but also what could happen in less favourable circumstances. Where we all expected to be winners, it now seems we have all become losers. The customers did not get what they wanted and lost quite some money; the advisors lost their clients' trust and the industry is faced with huge claims and reputation loss. It will certainly take some time to fully regain confidence from the customers. Nevertheless, I am convinced that Insurers are on the right track. When I look how product development in insurance companies currently works, I see that during the whole process, the question comes back: Is this product in the interest of the customer and are the premium and the cost-loading fair? These are the questions we should ask ourselves and I am convinced that it will pay back and further restore the confidence customers have in insurance companies.

What the insurance industry and insurance regulators can do together to manage market conducts risks and increase the value of insurance for consumers?

I think a joint effort by the industry and insurance regulators is by far the best solution for managing market conduct risks. Given the fact that insurers exist by the grace of the confidence by consumers, it is extremely important that they manage the conduct risks. Self-regulation by insurers is for me, in principle, the preferred option, as this can count on full commitment by the industry. At the same time, there can be situations where it is good to have a regulator that issues clear rules that apply to all insurance providers in the market. Given the importance we attach as an insurance industry to managing the conduct risks such as those identified above, the CRO Forum decided to prepare a paper on this topic. In that paper we identified examples of sound risk management practices that can effectively help insurers to manage conduct risks. I definitely hope the examples in the paper inspire insurance companies to proactively strengthen their conduct risk management without awaiting measures from the regulator.