



The CEO's Agenda Looking Ahead

In this final installment of a three-part curtain raiser to the IIS conference in Chicago next month, **Mr Patrick W Kenny**, President and CEO, International Insurance Society Inc, USA, looks at consumer issues and its growing impact in the industry, especially in Asia.

In past articles, I have elaborated on the “top industry issues” as determined by our annual survey of global insurance executives. Recurrent issues such as regulation, distribution and corporate governance were rated the top issues. Among the designated ‘less critical’ topics were consumer issues. Ironically, I feel this issue has had a strong impact on the industry in the past, and it is currently influencing the Asian insurance market immensely.

In dissecting the topic of consumer issues, there are countless topics of interests and influence, but two subjects come to mind immediately.

Concept Of “Required Purchase”

Firstly, the concept of “required purchase” such as legally mandated auto insurance and mortgage lender required homeowner’s insurance. Products purchased based on requirements creates a “bargain-hunter” environment in which the consumer focuses on pricing and ease of purchase. Consequently insurers concentrate on broad-based mass marketing of products and ease of distribution, wherein simplified underwriting guidelines becomes critical.

Arcane And Convoluted Insurance Terminology

The second issue stems from the first, and that is the impediment of arcane and convoluted insurance terminology. Our industry constantly faces criticism for misrepresentation and, in reality, the complexity of the product, in particularly life products, coupled with complicated terminology, creates a recipe for misunderstanding.

Consumer Comprehension

Without disputing whether or not insurance products are in fact overcomplicated, I would like to focus on the objective of escalating consumer comprehension. I believe the solution starts with increased attention at the point of sale, in other words, the agent.

More Resources To Agent Training

In spite of the cost of distribution in today’s environment, the industry must allocate more resources to agent training. Insurers need to produce conscientious agents, accountable to the consumer, who are responsible for clarifying the nuances of products and for furnishing adequate information to facilitate an informed consumer decision. With an industry-wide concentration on an educational sales methodology, we can minimise the occurrence of misrepresentation and eliminate or alleviate other systemic issues such as inconsistent sales practices and product churning.

The Asian Experience

Am I overstating the issue? Consider the history of the development of life insurance markets in Asia, for example, Australia in the late 1980s, Korea in the mid-1990s, and the current development of the Chinese insurance industry. Each market growth spurt has been characterised by migration of agents from company to company as the level of compensation escalates. Such movement of agents alone is not necessarily a problem providing each company has dispensed adequate training and product familiarisation, as well as a focus on ethical sales practices.

In mature markets, this issue is also prevalent due to the frequent introduction of new and upgraded products, making continual agent training a fundamental necessity. Increased distribution system costs by expanding agent training will not necessarily appeal to insurance companies, but ultimately the training costs will likely be a better economic solution than facing the costs – both monetary and reputation – associated with satisfying increasingly ubiquitous regulatory concerns throughout Asia.

The Mass Media

Another consumer issue involves advertising. The basic mass media approach dictates usage of a quick, expansive appeal, and while this is effective for name recognition and consumer awareness, it generally amounts to advertising that is space- or time-constrained. While a “teaser” may be a necessary component of general advertising, it is also the genesis of consumer misunderstanding and misinterpretation. Unfortunately, at this point in time, attractive advertising and informational advertising are mutually exclusive for the insurance industry, so consumer product comprehension must be addressed at the point of sale.

Industry Must Be Proactive

Where do we go from here? What is the industry to do? Currently, the insurance industry undersells itself by failing to impress upon the public its role as a medium for economic development, and the industry as a whole is enormously undervalued by the public.

The industry must expand its efforts to become proactive in communicating this message and creating consumer appreciation of the value of our industry.

It must do this not simply in its sales tactics and advertising approach, but also in a broad-based plan, including seminars, worksite information, public service presentations and countless other ways which would be instrumental in de-mystifying our products, service capabilities, and overall value to economic development and society. ■