Chartered
Insurance
Institute

Standards. Professionalism. Trust.

The challenge

Public Trust in Insurance

cii.co.uk

That illusive trust

Insurers need to turn the customer relationship into one of protection and meeting needs, rather than sales and product lines. That will take a change of mindset, bravery, and a concerted effort to engage with consumers says Liz Barclay, Broadcaster, author and Chair of the Board of Directors of the Money Advice Liaison Group.

"We are very good at telling the world what we do, but do we really stop to understand whether what we do is what our customers really want or need? If we don't do this for ourselves, someone else is going to come along and do it for us."

Many consumers and small businesses don't trust the insurance industry. You may be thinking that's a statement of the bleeding obvious – but while we've known this for years it has been an intractable problem. As part of its work on understanding trust, the Chartered Insurance Institute commissioned a series of conversations with senior insurance executives. These show there is mounting concern: "Insurers see an obvious dividend to be gained from building trust with their customers and creation of any uplift in consumer trust in the industry as a whole as a 'good thing'. However, they differ as to how that should, or even if it could, be achieved.

"They believe that the market is such that there is a structural focus on price, not value and unless that changes it will continue to result in a 'race to the bottom', with potentially serious consequences for the future of the industry".

The nub of the matter is summed up by that quote from the conversations (unaccredited quotes in this article come from those conversations):

The problem:

Payment Protection Insurance, dual pricing, product bundling, commoditisation, lack of transparency, aggregators all put the knife in...

"People just don't understand what they are buying. They thought they'd got a Rolls and then they find out they have a Mini. The aggregators have fuelled a lot of that."

And ineffective communication dealt the fatal blow. The Financial Conduct Authority says in its *Smarter Communications* paper that insurance customers:

- found language confusing;
- had difficulty comparing policies and the different elements of cover;
- and often had poor understanding of products.

In the words of one insurer language is often "officious, dry and unimaginative". Research for the Chartered Insurance Institute (more later), this year shows the extent of that problem: people don't know what a 'no-claims bonus' is, for example.

Add the spectre of personal data breaches and increasingly sophisticated algorithims, leading to exclusion of some customers from insurance, and trust is about to be buried.

This is serious stuff. The Chartered Insurance Institute is working to assess the problem and help its members rectify it.

What is trust?

Dictionary definitions include: **reliance on the integrity, strength, ability, surety, etc. of a person or thing; confidence: the confident expectation of something; hope; the obligation or responsibility imposed on a person in whom confidence or authority is placed**

I was trawling through the dictionary on 11 May while MPs in the Commons were hearing about previously unreleased documents, which showed that senior managers at Lloyds were allegedly aware of the fraud at the Reading branch before Lloyds took over HBOS in 2008, but action was taken to conceal the details.

The MPs asked: was there a deliberate concealment of the scale of the fraud? Who was party to the concealment? Did the concealment crucially result in significant losses?

My heart sank. We've been debating the conduct and trust issues for a decade and consumers will feel yet again, understandably, that they can't trust banks: can't rely on their integrity, strength, ability, and can't expect confidently that they will do the right thing.

If insurers are heaving a sigh of relief that it's the banks in the firing line, think again. Lack of trust in one part of financial services impregnates the whole sector. No matter what the figures say there's a perception that 'they're all out to rip off consumers'.

A Financial Inclusion Commission report in November 2017[1] showed that nearly 16 million adults in the UK have no home insurance and many have little or no savings. If they lost their possessions through fire, flood or theft, they would have to turn to credit or charities, or go without.

The FCA[2] points the finger at: the 'maze' of complex and bureaucratic processes; the 'fog' of industry jargon and difficulties in making comparisons; the 'void' that can be faced by consumers unable to engage through modern channels.

(1) www.financialinclusioncommission.org.uk/pdfs/improving_access_to_household_insurance.pdf

(2) www.fca.org.uk/publication/occasional-papers/occasional-paper-17.pdf

Resurrecting trust in insurance

From birth we trust our parents and those around us: we have little choice. As we grow discerning with age, our experiences inform our decisions on trust. Poor experiences teach us not to trust those who fail to deliver what they promise, through incompetence (inability, lack of knowledge or experience), or lack of will to do the right thing.

Dr Katherine Hawley is Professor of Philosophy at St Andrews University. Her report *Public Trust In Insurance for Chartered Insurance Institute* (January 2018), says that "learning to trust wisely is a crucial life skill: trust is essential, since none of us has the time to check out the credentials of every individual we deal with, still less every company or institution; yet a degree of distrust is also essential: if we are oblivious to warning signs, we become gullible prey, unable to navigate ourselves and our families safely through the modern world. Each of us trusts some people, and not others, some organisations and not others. When we trust, we expect both competence and basic good will, since neither alone will get the job done".

Sadly for trusting customers of TSB the goodwill was there but the competence in technology wasn't, and trust has gone.

Dr Hawley says:

"Firms are grappling with competence levels – understanding needs and expectations of customers, changes in technology, demand for increased loyalty at better prices.

"Insurance providers may face special challenges in evidencing their competence: for example when consumers do not have personal experience of trying to claim, where comparison websites mean decisions are largely based on price alone, or where consumers do not diligently read through paperwork, terms and conditions. Questions about trust should specify who or what is the target of trust, and what he, she or it is trusted to do."

Resurrecting trust in insurance

Laurie Edmans has been in insurance for 50 years and is a Fellow of the CII:

"I was taught that 'the basis of insurance is utmost good faith'. No amount of compliance can replace that. People's scepticism about insurance is as old as insurance – their impressions are forged by exceptions, not the rule. People who need cover, but don't take it, lose out – often tragically – so does the industry. We must deserve trust."

"One of the biggest things the industry has to deal with right now is new renewal pricing, a) how do you do a better of job of explaining it, and b) how, as an industry, we can move away from penalising loyalty?"

A report[3] by University of Warwick (commissioned by the Financial Services Compensation Scheme) in 2015 says:

"The issue of trust arises whenever one entity (e.g. a financial services company) agrees, whether explicitly or implicitly, to perform some service for another (e.g., a consumer) where, crucially, the consumer cannot directly observe whether the service is being performed as agreed. Where trust is high, the consumer is confident that the firm will do as they promised; where trust is low, the consumer is concerned that they will not. Almost any consumer interaction with a financial services firm requires an act of trust on behalf of the consumer; it is therefore of crucial importance to the industry that consumers have a high level of trust in financial services providers. Yet our research found that **only 42% of consumers… trust financial services firms**.

"Overall, consumers typically believe financial services firms can deliver what they promise but do not believe that they would do something for consumers' benefit if it were not also in the firms' immediate self-interest to do so."

Only media people are less trusted than financial services according to that report! It cites several 'Trust Gaps' including: Huge bonuses to senior managers regardless of performance; not telling consumers when they would be better off switching to another account or product; teaser rates and introductory offers which consumers perceive as being punished for being loyal.

(3) www.fscs.org.uk/globalassets/press-releases/20151111-fscs-trust-white-paper-final.pdf

What's to be done?

This spring the Chartered Insurance Institute asked: what is insurance to you? From 220 video interviews it's clear that people don't buy a financial product – they buy what it allows them to do: protect their families and give them peace of mind. As one customer put it: "insurance is like a 'parachute': if I fall, I expect you to help me back up."

"Sometimes I think that one of the things we should aim to do to improve trust is to provide a level of day to day service that companies such as Amazon can. But in order to do that we would need a complete mind reset and tens of millions of investment. We still have legacy systems on green screens. Remember them?"

The research puts **loyalty** at the top of consumers' lists but that's where performance is poorest. Consumers hate dual pricing: it's the polar opposite of rewarding loyalty. Customers feel they are forced to switch providers each year or face being ripped off. But they feel that goes against them if they have to make a claim: as a longstanding customer they will be believed; as a recently switched customer they may be perceived to be fraudulent.

The industry obsesses about increasing loyalty but does it know what loyalty looks like to the customer?

People want their insurer to understand what's important to them. A great example involves a single mother and an elderly man living next door to each other. Each asks for a replacement fence after a storm. He wants to stop foxes getting in; she wants her children to play out safely. The 'fences' could be very different. If insurers can work out what's important to their customers, trust can be built by fulfilling these needs quickly.

One insurer got big plaudits for advising customers to: "take your wedding album from underneath your sofa and stick it in a room upstairs when there might be a flood. That's something we're not going to be able to replace for you. We received a lot more kudos for that than issuing a telephone number".

Price comparison, commoditisation, packaging etc. are taking things in the opposite direction. Ease of getting an insurance policy is considered less important according to the research – yet the industry has invested heavily in it. What consumers really, really want is the trustworthy insurers that serve customers' best interests first, rather than their own immediate goals. Dr Katherine Hawley says trustworthiness needs to be demonstrated through both action and words.

"Trustworthy people and organisations... make clear what can be expected of them. Setting realistic expectations poses special challenges where customers may not fully grasp what they value in a product, or what a normal or reasonable standard of service entails. It also poses challenges for particular individuals or organisations, if public perception does not clearly distinguish between different representatives of a sector or profession. Setting – and meeting – reasonable expectations is crucial to this. But this is difficult to achieve when an entire sector is held responsible for the untrustworthy behaviour of a few."

Competence and willingness to take responsibility and put customers' interests first equals trustworthiness. If you're trustworthy and understand my needs we can build a working relationship and I won't leave you if you don't punish my loyalty. It's not a lot to ask, is It?

The Chartered Insurance Institute research shows that building a relationship is of little importance to customers. It seems what they mean is that they don't want to be "friends" on Facebook, but they want to be able to trust that their insurer will be there when needed and act in the customer's best interest rather than their own. Overall customers want to stay with the same insurer but don't believe their insurer recognises or values their loyalty. There's still a missing piece in the puzzle I fear: engagement. People don't engage with insurance or insurers. It's not a 'sexy' or engaging sector.

What's to be done?

Steve Devine is Chair of the insurance organisation The Protect Association:

"I believe that for pure, true, real trust to exist the industry must look to dramatically reduce the number of claims, fines and misdemeanours that continue to surface and we need to actively engage with consumers to solve their problems and enhance their lives. That must be at the forefront of service rather than flogging expensive, complicated products. Integrity attracts trust. Artificial intelligence, perhaps Blockchain, and others, might help the industry get there but we can't afford to keep waiting for the cavalry to arrive."

In the conversations with senior insurers all agreed that "to improve consumer trust… it's necessary to stamp out poor industry behaviours". They look to the regulator to do this. Not through further regulation but though evolving regulation and, above all, diligent industry-wide policing. Early mover disadvantage is a barrier to progress but they believe competition law precludes them from acting as a cohort in ceasing, for example, dual pricing.

However, Chris Pond, who wears many financial services hats including Chair of the Lending Standards Board, warns: "Statutory regulation provides consumer protection but not trust: consumers know firms do it because they have to. With voluntary regulation consumers know you're doing it because it's the right thing to do. That earns trust".

"Well, the obvious thing to do other than regulate is to get together as an industry ourselves and agree a set of principles. But we can't as competition rules forbid it… For one to go it alone would be very brave."

"Definitely. Building trust with our customers is a core value for us. We see it as the only way to succeed in the future."

Please. Be brave.

Insurers trumpet 99% motor and 95% household claims paid. But it takes just one case to inexorably damage public perception of the industry. Take the recent disaster where a home burned down but the insurer refused to pay out because of a dispute over whether it had five or seven bedrooms. The press was euphoric. That one refusal to pay out over what counts as a bedroom will stick and feed the perception that insurers try anything to reject claims: regardless of what the percentages say. The Chartered Insurance Institute research shows that customers want to know they can have confidence in companies that are reputable.

It shows they want loyalty. A relationship that is purely transactional won't cut it. Customers are happy with the speed and ease of transactions (although they would move if someone came up with a faster, easier process): it's the underpinning loyal, trusting relationship they really value.

Insurers need to be brave and turn the customer relationship into one of protection and meeting needs, rather than sales and product lines. That will take a change of mindset and bravery. It will also take much better engagement.