



# From promises to performance: The power of clear and transparent communication in insurance policies

## Communication is at the core of each customer's relationship

### Contractual ambiguity at the core of a multi-billion dollar industry

Insurance business represents a prominent share of GDP in many Asian markets, and much of this business is participating in nature. We estimate Life premiums will reach approximately 2.8% of the world's GDP in 2023.

Despite the significance of participating business, companies retain considerable discretion in its operation. At its heart, participating business is defined by underlying contractual ambiguities that are offered to new and existing customers. How management manages these ambiguities will affect customer outcomes.

### 'Trust me, I'm an actuary.'

Participating insurance policies are packaged savings products, which combine elements of protection and wealth accumulation. Insurance companies invest premiums on behalf of customers and seek to pay additional benefits, above and beyond the minimum guaranteed benefits. How products perform (i.e. the sum of guaranteed and non-guaranteed benefits) is determined by how insurance company executives take decisions about matters as diverse as investment mix, allocation of expenses and the sharing of experience between groups of customers and the company.

### Treating customers fairly = the customer promise

Companies retain considerable freedom in how they manage participating business; however, insurance executives do not have a completely free hand. Constraints exist in the professional actuarial guidance and in insurance regulation. There is a need to have regard to "Policyholders Reasonable Expectations" ("PRE") and, more recently, the Insurance Core Principle 19 Conduct of Business<sup>1</sup> promulgated by the International Association of Insurance Supervisors introduces the requirement for management to "Treat Customers Fairly" ("TCF").

PRE is clearly important, but the term is not precisely defined. A common-sense, working definition suffices: "The realistic expectation which should be made by lay policyholders for the terms and benefits provided under participating insurance contracts."

<sup>1</sup> <https://www.iaisweb.org/icp-online-tool/13530-icp-19-conduct-of-business/>



PRE are very important for insurance companies as they drive their relationship with their customers, can affect claims settlements, and contribute to customer satisfaction and trust.

## Rising to the challenge

Insurance regulators and customer advocates are keenly interested in how executives rise to the TCF and PRE challenges. Failing to rise to that challenge could see products outlawed or curtailed, or even crystallise in the form of higher outgo than expected. In one celebrated case, a court of law ruled the insurance executives had overstepped the bounds of PRE resulting in the collapse of the insurance company<sup>2</sup>. Relying on compliance with historical minimum standards might not be sufficient as best practice evolves.

## What you say versus what you do

Multiple factors can create these PRE, such as the long-established practices of a company or the wider industry, the language used in the policy documentation and the way agents represent the company and its propositions. Underpinning all of this is a tacit expectation that the lay policyholder could achieve a basic understanding of the participating insurance contract.

Clear communication is a key aspect in shaping PRE. Insurance companies should pay full attention to it and not only in presenting their propositions in a clear and relevant way but also constantly checking that such clear communication remains effective (e.g. in the face of changed conditions or at different stages of the customer cycle).

## The challenge of communication

There are challenges on communication that need to be addressed. For example:

- 1 Complex policy wording and jargon:** the technical language and complex features of participating insurance contracts that are presented in clients' documents such as policies or brochures can make it challenging for policyholders to fully understand the promised benefits. For example, insurance companies might talk of "early duration guaranteed cash surrender values", while customers talk about "what do I get back if I cash it in?"
- 2 Regulatory standards:** different jurisdictions have varying standards and laws regarding policyholder disclosures and some place specific requirements on PRE. However, the accumulated burden of successive regulatory amendments can create lengthy, detailed disclosures, which can be alien to customers more used to consuming social media.
- 3 Education and accessibility of information:** the lack of consumer awareness and understanding about participating business can affect policyholders' understanding of the "Policy Promise". Regulators in many territories have promoted customer awareness and education initiatives to address the issue, but inertia can be hard to overcome. Customers may only have a hazy understanding of complex matters like risk and compound interest. The default in many cases may be for customers to rely on the insurance intermediary or on friends and family for advice.

Addressing these challenges, the need for insurance companies to remain in control of the customer conversation in participating business has never been more urgent. Participating insurance contracts are often presented through brochures and illustration supporting materials which are complex documents written in technical language, making them challenging for the average potential prospect client to fully understand. Prospective clients may form expectations that may differ from the original insurer's intent if they are presented with voluminous or complex brochure wording and technical supporting documents, such as illustrations.

<sup>2</sup> Equitable Life Assurance Society v. Hyman [2000] <http://www.bailii.org/uk/cases/UKHL/2000/39.html>

# PRE health-check: How healthy are your customer communications?

## Prevention is better than cure

Just as you would undergo a periodic medical examination to ensure all is well with your vital functions, we're strong advocates of adopting a similar mindset with regards to your customer communication.

While minimum regulatory standards evolve over time, the customers' expectations are rooted in the present. Ensuring communications are adequate and relevant to all cohorts of customers is important. A comprehensive "health screening" to assess the hygiene of how insurers are managing customer expectations will ensure that there are no surprises, and any gaps in policies, procedures and practices in customer communication can be proactively managed. This "screening" needs to cover multiple dimensions both from an inside-out perspective (the company's policies, procedures, practices and controls) and an outside-in perspective (all stages of the customer lifetime, across multiple touchpoints wherever customers are interacting with the insurer). Ultimately, the level of customer understanding and satisfaction on the communications is the test of an insurer's communication programme and verdict on how well the inside-out actions flow through to the desired positive customer outcomes.

## Case studies

- Gaps in agent training on policy loan's affect policy values have led to customers purchasing products with intention to take advantage of the loan, without realising the risks. This has subsequently led to complaints of misrepresentation by the company and agent.
  - It would be advisable that policy loan's charges (such as interest on the loan) are disclosed transparently and contrasted with the return expected from the participating insurance contract. Also, if the contract offers an automatic premium loan, it is recommended to put full emphasis on this feature right at the point of sale.
- A customer's inability to fully understand sales illustrations and annual statements, coupled with inadequate explanation by the agent on the illustrative nature of future value projections have led to expectations of future policy value growth not being borne out in practice. This then resulted in a complaint that the returns illustrated at point of sale were misleading.
  - There are two aspects to consider. On one hand, the illustration should only represent a set of examples of the performance of a contract and therefore they need to be understood for reference only and with the high likelihood of changing and be lower once the effect of inflation is taken into account. The other aspect that needs to be better appreciated is the "guaranteed" return vs. total return in adverse scenarios.

Customer focus group interviews	
Examples of findings:	...And how to address them with some recommended actions
<ul style="list-style-type: none"> <li>• Challenge in understanding technical terms; heavy reliance on agents or brands, rather than deciding on printed materials and analyses</li> </ul>	<ul style="list-style-type: none"> <li>• Agent to disclose the risks behind the illustrated numbers, and to explain what the bonuses mean, and how they are positively and negatively impacted by investment return</li> </ul>
<ul style="list-style-type: none"> <li>• Overwhelmed with the quantity of numbers that are included in pre-sales disclosure and Sales Illustrations</li> </ul>	<ul style="list-style-type: none"> <li>• Enhance agents' sales practices to guide customers on how to read pre-sales materials, how to focus on the most important disclosures and what could impact their policy benefits.</li> <li>• Assess and avoid deviating from risk appetite alignment</li> </ul>
<ul style="list-style-type: none"> <li>• Lack of use of supporting information material to better understand performance (such as the historical "fulfillment ratio" published by Hong Kong insurance companies)</li> </ul>	<ul style="list-style-type: none"> <li>• Inform customers about the ratio and educate them what it means and how it should be read</li> </ul>
<ul style="list-style-type: none"> <li>• Information not aligned with customers risk appetite</li> </ul>	<ul style="list-style-type: none"> <li>• Enhance the risk appetite assessment of the customer during the Financial Planning and Analysis survey to minimise the mismatch between customer's risk appetite and the product's risk profile</li> <li>• Enhance agent's sales practices to explain the risks behind the investment return and highlight the possibility under which the return may dip below other returns in their risk appetite such as Time Deposit returns</li> </ul>

# Three-pronged approach

From our experience with company engagements and discussions with regulators, these three components provide a sufficiently comprehensive "health-check" to understand the quality of your communications programme and how it can be improved:

## #1 Technical Review of Policy & Procedures (a review of what you do)

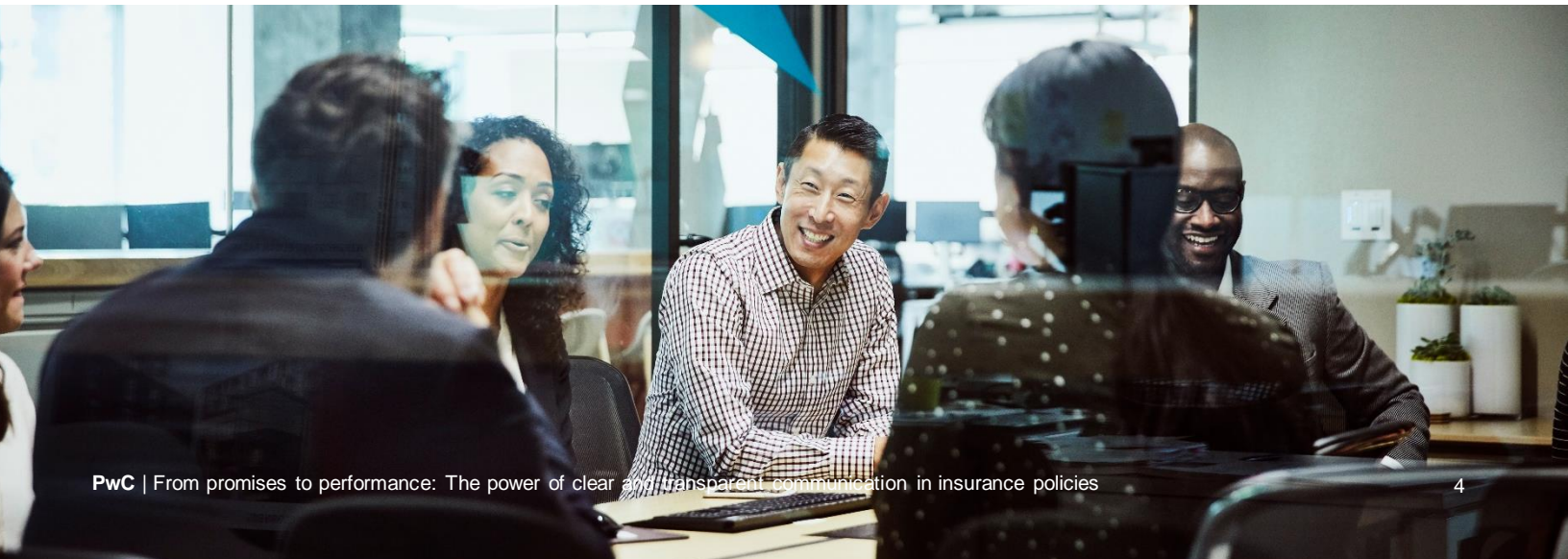
- **Compliance:** Mapping of relevant internal policies against regulatory requirements, guidance issued by industry associations and generally accepted practices related to customer communications, fair treatment of customers and managing customers' expectations.
- **Governance:** This review will cover adequacy of governance structures, policy framework, procedures and controls for managing communication and customer expectations.
- **Practices and procedures:** Clear and practical procedures, practices and controls are needed to ensure that the policies are executed as intended and delivering good consumer outcomes

## #2 Outside-in Review of Customer Communications (a review of what you say)

- **Continued relevance:** each insurance company produces a large range of literature in a variety of media: website, product brochures, sales illustrations, annual statements, booklets and guides explaining how participating business works. These need to strike a fine balance between completeness and ease-of-understanding, and timed well in terms of how and when it is delivered along the customer journey. A mindset of review and continuous improvement is important for "on-shelf products" (available for new business) and for in-force portfolios.
- **Training:** To reinforce the right communications, adequate training and quality controls for intermediaries and customer-facing company employees is critical.
- **Voice of customer:** Perhaps the single best source of evidence regarding customers' understanding of product benefits and the "Promise" for discretionary benefits can be obtained from careful surveying and conducting focus groups. We are strong believers in holding periodic interviews with a representative sample of individuals, corresponding to the insurer's typical customer personae.

## #3 Review of Customer Complaints

- Unfortunately, no program of communication is perfect. We can expect a certain level of robust customer feedback no matter how hard the insurance company tries to communicate the proposition carefully. However, such direct, unfiltered feedback is a valuable source of whether the carefully curated messages have been received and understood. Analysis of the type and volume of complaints as well as how the insurance company responds to the feedback is critical. It may provide early detection of emerging issues and provide an opportunity to correct and refine practices.
- Independent study of customer complaints provides a valuable test on whether the company's communication programme is achieving the desired outcomes, and where these could be further enhanced. This will give insights on how the company is performing pre-sales and post-sales and can suggest areas for enhancement.



## In summary

Insurance companies need to remain vigilant on how they conduct their sales process and what they communicate to their customers in relation to the participating insurance contracts features and performance. While assessing an effective communication through a review of their main complaints, asking their customers on a sample basis, or reviewing agents training materials, they need to check if the information provided at all stages of their customer experience is relevant and comprehensive. Ultimately all communication needs to serve the objectives of ensuring customers have a sound understanding of the product prior to purchase and have expectations that are consistent with its ongoing performance. It is also important that communication is governed, with clear accountabilities in the company and clear and regular visibility of its effectiveness up to the level of the Board.

## Contact us



### Maurizio Busti

[maurizio.busti@hk.pwc.com](mailto:maurizio.busti@hk.pwc.com)

Maurizio is an experienced consultant and c-suite leader with more than 25 years' experience gained in Europe and Asia. He oversees the actuarial practice for PwC in Asia.



### Nigel Knowles

[nigel.knowles@hk.pwc.com](mailto:nigel.knowles@hk.pwc.com)

Nigel is a consultant in the PwC actuarial practice and a former c-suite executive. He has over 25 years' experience in managing participating business in the United Kingdom and Asia.



### Yew Khuen Yoon

[yew.khuen.yoon@pwc.com](mailto:yew.khuen.yoon@pwc.com)

Yoon leads the actuarial practice for PwC in Malaysia. He is a former Director at Bank Negara Malaysia where he covered various roles including the formulation of strategies and policies to develop the insurance sector in Malaysia.

This content is for general information purposes only, and should not be used as a substitute for consultation with professional advisors.

© 2023 PricewaterhouseCoopers Limited. All rights reserved. PwC refers to the Hong Kong member firm, and may sometimes refer to the PwC network. Each member firm is a separate legal entity. Please see [www.pwc.com/structure](http://www.pwc.com/structure) for further details.