

Conduct of Business Risks – Consumer Perspective
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IAIS Market Conduct Subcommittee

February 5, 2014

1. Low-Value Products Targeted at Low-Income Consumers
 - a. Measurement of Value of Insurance Product to Consumers – Benefit Ratio or Loss Ratio

2. Credit-Related Insurance Products
 - a. Abuses of consumer credit insurance / ppi show up all over the globe
 - b. Reverse Competition – kickbacks to lender, low benefits to borrower
 - c. Massive profitability creates incentives for abusive sales and claims settlement practices (post-claims underwriting).
 - d. Debt Cancellation Replacement for Payment Protection Insurance/Consumer Credit Insurance
 - e. Mortgage Insurance
 - f. Numerous studies at CEJ web site: www.cej-online.org

3. Disclosures to Empower Consumers, Not a Liability Shield for Insurers; Best Practices for Consumer Disclosures
 - a. Market Analysis to determine if disclosure can address a market problem and empower consumer
 - b. Timing and method of presentation of disclosure as important as content
 - c. Testing of disclosures prior to use
 - d. Insights from behavioral economics
 - e. Testing of outcomes after disclosures in use
 - f. US examples:
 - i. Insurance Department Rate Comparison Tables -- Ineffective
 - ii. Shopping Guides -- Ineffective
 - iii. Policy Comparison Tool – Effective (Attachment – Texas Office of Public Insurance Counsel

4. Producer Compensation Schemes Not Aligned with Interest of Consumers
 - a. Incentives to churn or replace policies; sell unsuitable products; push one product over others regardless of consumer needs
 - b. US Example: auto/property agent compensation vs. life/annuity compensation
 - c. US Example: contingent compensation based on sales volume, loss ratios
 - d. At a minimum, transparency of compensation; prohibitions on certain compensation schemes

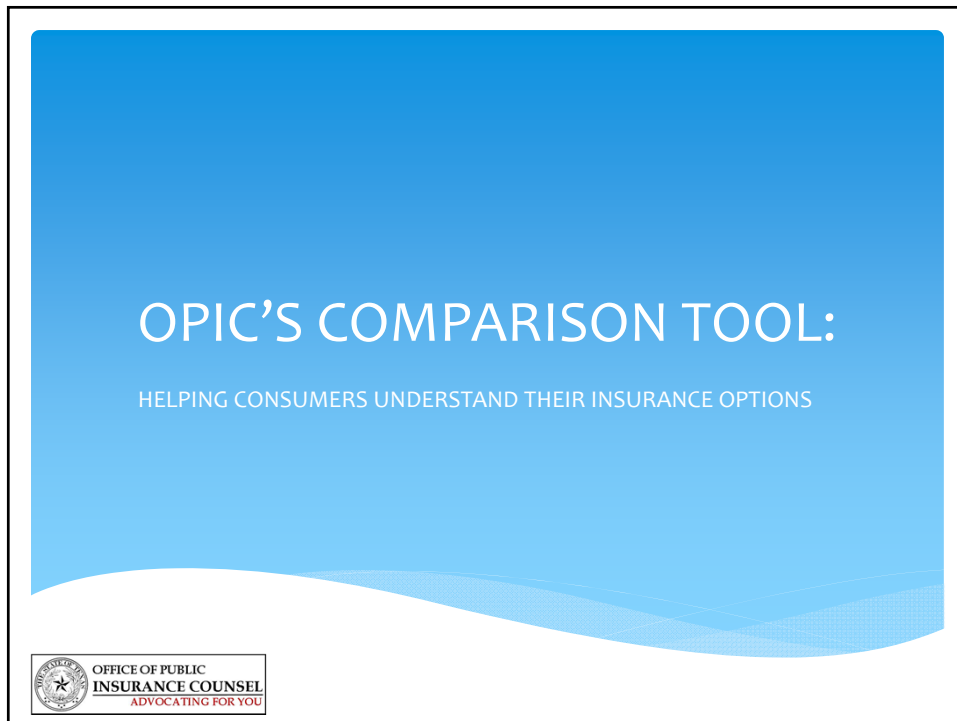
5. Risk Classifications and Fair Treatment of Consumers
 - a. Unfair rating factors – “price optimization” (price elasticity of demand), socio-economic characteristics, credit score;
 - b. Factors reflecting and perpetuating historic discrimination: disparate impact
 - c. Rating factors that undermine loss mitigation role of insurance
 - d. Rating factors from data mining into a black box scoring model
 - e. Transparency and limitations on risk classifications to promote loss mitigation

6. Protection of Consumer Data and Privacy
 - a. Telematics
 - b. Loss Databases
 - c. Fraud Databases


7. Overly Complex Retirement Income Products
 - a. Insuring market risk vs. mortality risk
 - b. Consumer inability to evaluate overall value of product – benefit ratio
 - c. Fee Harvesting by insurers vs. product value to consumers
 - d. Long-term investment by consumer; surprise policy provisions years later and too late for alternative investment.

8. Systemically-Risky Retirement Income Products – Contingent Deferred Annuities

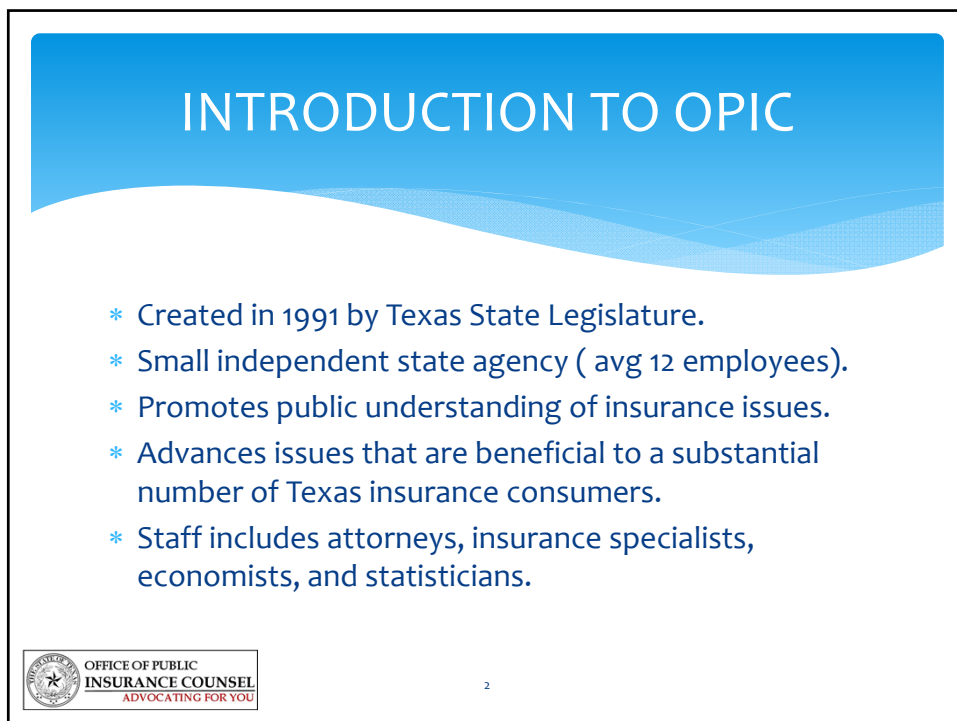
9. Publication of Data of Insurer Market Performance – typically packaged by consumer organizations / academics to develop comprehensible metrics for consumers
 - a. Revenues, Expenses, Benefit (Loss Ratios)
 - b. Location of Sales by Product and Price
 - c. Consumer Complaints by product and product life cycle stages
 - d. Claim Settlement Metrics – claims denied / days to claim payment by product and location



OPIC'S COMPARISON TOOL:
HELPING CONSUMERS UNDERSTAND THEIR INSURANCE OPTIONS




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INTRODUCTION TO OPIC

- * Created in 1991 by Texas State Legislature.
- * Small independent state agency (avg 12 employees).
- * Promotes public understanding of insurance issues.
- * Advances issues that are beneficial to a substantial number of Texas insurance consumers.
- * Staff includes attorneys, insurance specialists, economists, and statisticians.



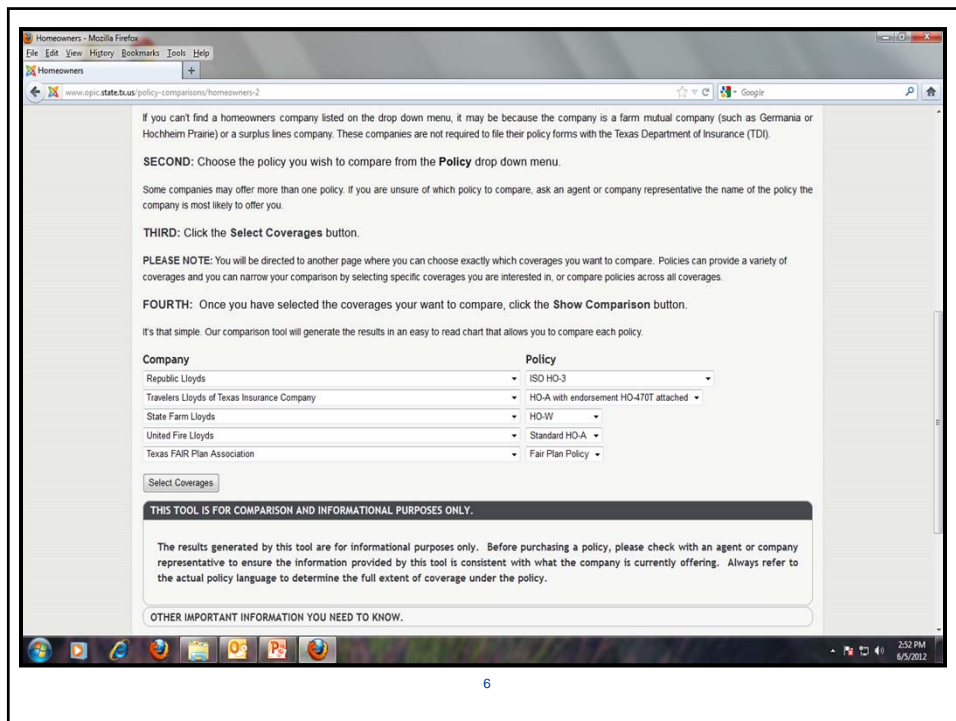
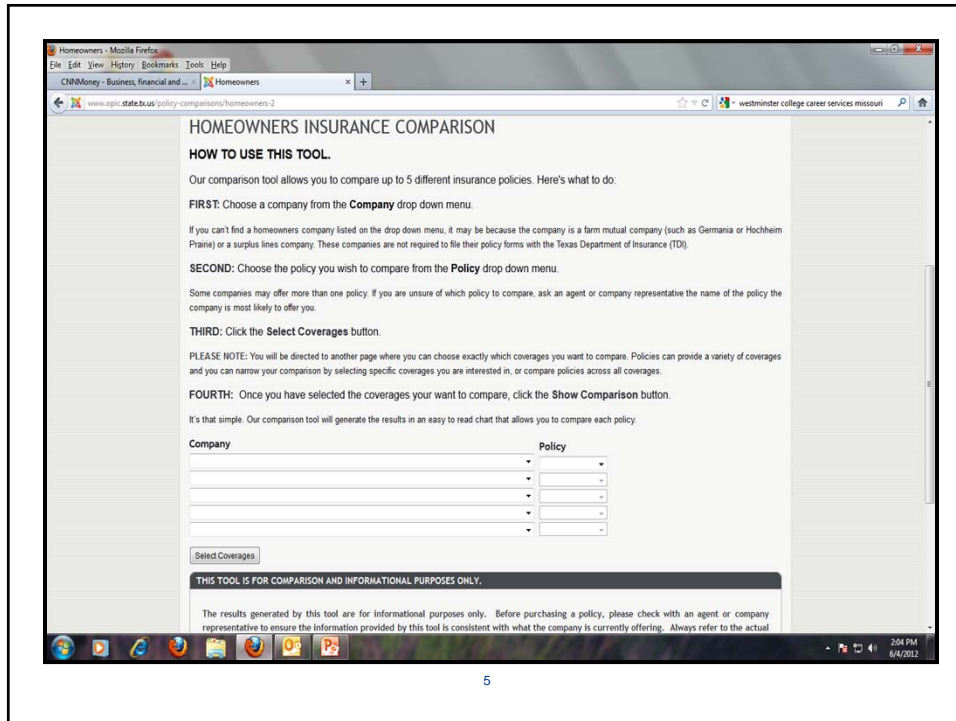
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NAVIGATING OPIC'S POLICY COMPARISON TOOL

- * Compare up to five policies at a time,
- * Comparisons available for homeowners, condo, renters, and auto insurance,
- * Lists coverages that commonly differ





OPIC
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HOME COMPARE POLICIES AUTO CREDIT HEALTH RESIDENTIAL PROPERTY NEWS/PUBLICATIONS FAQ

Compare Policies Homeowners

SELECT DESIRED COVERAGES:

SELECT ALL SELECT NONE SHOW COMPARISON

TYPE OF COVERAGE

- Dwelling
- Personal Property (Contents)

WATER DAMAGE

- Sudden and Accidental discharge or overflow of water or steam from a plumbing, heating, or air conditioning system
- Continuous or Repeated leakage from a plumbing, heating, or air conditioning system
- Backup of sewers or drains
- Freezing of plumbing or heating system

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POLICY COMPARISON RESULTS:

CHANGE SELECTIONS CHANGE COMPANIES PRINT

	Travelers Lloyds of Texas Insurance Company Policy: HO-A with endorsement HO-470T attached	United Fire Lloyds Policy: Standard HO-A	Republic Lloyds Policy: ISO HO-3	State Farm Lloyds Policy: HO-W	Texas FAIR Plan Association Policy: Fair Plan Policy
TYPE OF COVERAGE					
Dwelling	Named Perils	Named Perils	All Risk	All Risk	Named Perils
Personal Property (Contents)	Named Perils	Named Perils	Named Perils	Named Perils	Named Perils
WATER DAMAGE					
Sudden and Accidental discharge or overflow of water or steam from a plumbing, heating, or air conditioning system	YES. However, there is no coverage for overflow or discharge of water that is below the ground or within or below the foundation.	Not Covered	YES.	YES. This includes coverage for a leak that is hidden and concealed if it is reported within 30 days of its detection.	Not Covered. However, coverage for sudden and accidental discharge or overflow of water or steam from an above ground plumbing, heating, or air conditioning system can be added by endorsement.
Continuous or Repeated leakage from a plumbing, heating, or air conditioning system	Not Covered.	Not Covered	Not Covered. However, coverage may be available by endorsement.	Not Covered. However, coverage may be available by endorsement.	Not Covered

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INCLUDED ON OPIC'S POLICY COMPARISON TOOL

HOMEOWNERS, CONDO, AND RENTERS COVERAGE

- * Type of Coverage – All Risk v. Named Perils
- * Water Damage – Sudden and Accidental Discharge, Continuous or Repeated Leakage, Backup, Freezing, and Flood
- * Mold – Mold Damage, Testing, Remediation, and ALE



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INCLUDED ON OPIC'S POLICY COMPARISON TOOL

Continued...

- * Foundations or Slabs
- * Falling Objects
- * Weight of Ice and Snow
- * Collapse
- * Damage by Animals
- * Damage by Vehicles
- * Glass Breakage
- * Construction Defects
- * Deterioration
- * Additional Living Expenses
- * ACV v. Replacement



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INCLUDED ON OPIC'S POLICY COMPARISON TOOL

Automobile Coverage

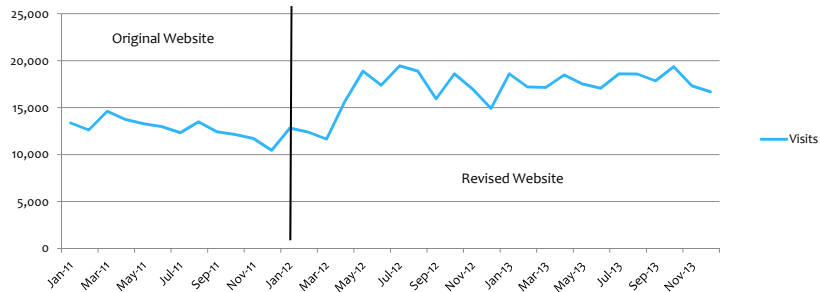
- * Covered Vehicles – Replacement Vehicles, Trailers, Motorcycles, Added Vehicles, Other Family Member's Vehicles, Temporary Substitute Vehicles.
- * Covered Drivers – All Users, Permissive Driver, Named Driver Exclusion
- * Other Coverages – Liability Outside the U.S., Loss of Use, Liability Outside of Texas.



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Are People Really Using It?

Average Monthly Hits Increased By 6000



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OPIC'S SUGGESTED TIPS FOR POLICY COMPARISON TOOLS

I. LIMIT CONTENT AND AMOUNT OF INFORMATION

Recognize that consumers can be easily overwhelmed with too much detail. They must be able to use the tool to evaluate the most important elements to them in a short amount of time. Keep in mind the following:

1. The risk profile for your state. List important coverages;
2. Define insurance terms in as plain language as possible;
3. For those consumers who want more detail, you can give them means to obtain it;
4. Keep your system's programming scalable so you can add features, data, and other information as desired.



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OPIC'S SUGGESTED TIPS FOR POLICY COMPARISON TOOLS

II. AVOID "RATING" POLICIES

While various rating tools can be helpful for consumers, their use is problematic in policy comparisons. Why?

1. Premiums and coverages differ greatly and do not always have a linear relationship.
2. Needs and risk tolerances of consumers vary greatly.
3. Complaint ratios and financial ratings must be evaluated.
4. Invites complaints from the industry if policy isn't rated as they think it should be.
5. Misleads consumers if their experience doesn't match your rating.



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OPIC'S SUGGESTED TIPS FOR POLICY COMPARISON TOOLS

III. CONTROL AND VERIFY CONTENT

As governmental entities we are expected to verify the accuracy of the information we present to the public. We are also expected to be an unbiased source of information. To do so, we should:

1. Gather our own data from policies or verify that any data provided by insurers is in accordance with the terms of their policy. There is no safe way to do this other than having a subject matter expert(s) create and/or review all data for your site.
2. Use uniform language when possible in descriptions.
3. Update as needed. This is pretty easy after the initial tool is created.



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OPIC'S SUGGESTED TIPS FOR POLICY COMPARISON TOOLS

IV. TEST THE TOOL BEFORE LAUNCH AND HAVE A "SOFT" ROLLOUT

This seems like (and is) common sense, but it is important to mention. In your testing, consider doing this:

1. Using a parallel site with a login, ask people for feedback on all aspects of using the tool (ease of use, any bugs, helpfulness, etc.). It's important that both insurance novices and experts provide feedback. This does not have to be time consuming, difficult or formal.
2. After correcting all the issues you can find, launch the site. I suggest waiting a few weeks to see if any other issues arise before publicizing it.
3. When ready, publicize, publicize, and publicize some more.



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OPIC'S SUGGESTED TIPS FOR POLICY COMPARISON TOOLS

V. LINK THE TOOL TO OTHER RESOURCES CONSUMERS CAN USE TO DETERMINE PREMIUMS AND COMPANY SPECIFIC INFORMATION

If you have other tools or links that will help the consumer in their shopping, link them prominently in the comparison tool. For example, if you have a premium comparison tool or complaint index ratings elsewhere on your website, these will be important to include. Including access to relevant information that can assist the consumer will help your tool become the “go to” tool for consumers who want to shop quickly and effectively.



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FIVE BENEFITS TO GOVERNMENTAL ENTITIES

1. *After initial set up, you have a central repository of information that is easy to use and update.*
2. *Saves the work product of your experts. When staff leaves/retires, much of their policy knowledge remains.*
3. *Saves staff time and effort by avoiding repeated look ups of policy terms.*
4. *Helps eliminate some potential for errors in policy interpretation.*
5. *Greater visibility and better interaction with consumers and insurance agents.*



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FOR MORE INFORMATION

Visit our website at WWW.OPIC.STATE.TX.US

OR

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