

FutureSet Systemic Risk Masterclass Series

Masterclass 4: Simplifying products and wordings to better protect customers

Key takeaways

The expectation gap between the insurance industry and customers

The impact of COVID-19 and the challenges that have arisen, including pandemic insurance coverage uncertainty and resulting court disputes, have demonstrated a clear expectation gap between insurers and their customers.

These challenges highlight the urgency with which the global insurance industry must invest and focus on clarifying and simplifying its products to promote greater customer understanding of their coverage. As many businesses around the world evolve to withstand the continued impacts of the COVID-19 pandemic, including radically changing their business models, the insurance industry must continue to reassess how it can better serve and support its customers.

Simplifying insurance products

There are several key actions the insurance industry can take to simplify its products:

1. **Leverage and build on existing leading practice** and adopt core principles, including:
 - Providing clear and simple product documentation
 - Summarising key components of the contract up front
 - Reviewing and rationalising product wordings
 - Enhancing customer risk literacy and understanding of their cover
 - Improving the customer experience by monitoring and analysing product journeys
2. **Invest in continuous product design and delivery innovations**, including data-led policies and digital contracts, as well as exploring more transformative options like parametric or outcome-based contracts that insure against tangible customer outcomes. Dynamic customer comparison tools and customisable modular contracts are further options for the industry to enhance customer understanding and ownership of their insurance cover.
3. **Involve customers directly in product design** to build simpler, products that cater for their changing needs and post-pandemic risk profiles. This could include appointing a customer representative or adopting new and innovative measures to seek regular customer input and feedback.

Ensuring that contracts are easy to read and interpret so that customers can more easily understand their cover is integral to closing any expectation gap.

2,070 consumer and micro SME products are sold through the Lloyd's market, with 70% of these provided by coverholders

Outcome-based insurance contracts are defined based on a **specific, measurable customer outcome**, rather than the cause of the loss, e.g. % loss in revenue

Lloyd's is taking action to simplify products, including holding a policy Datathon and developing training in partnership with the CII and LMA

Thoughts from our expert panel

The insurance industry has an important role to play in helping customers to better understand and manage their risks by looking at ways in which we can educate and engage them with the products they are buying, as well as finding ways to simplify and provide greater clarification.

John Neal
CEO, Lloyd's of London

There is a risk of under-insurance where people do not trust insurance products enough to buy them in the first place. People overlook the vast amounts of insurance claims that are paid.

Matt Brewis
Director of Insurance and Conduct Specialists, FCA

On average, most policies require an undergraduate education to understand an insurance policy. Only 13% of the UK population has this level of education.

Tim Johnson
Partner, Browne Jacobson

It is a very powerful exercise re-writing policy documents. There is a disconnect in what cover insurers want to offer and what the insurance policy is offering.

James Daley
Managing Director, Fairer Finance

There is always more we can do to enhance the trust between the global insurance industry and our customers. We need to make risk and insurance much closer to each other and it is the risk language which should drive the insurance language.

Julia Graham
Deputy CEO and Technical Director, Airmic

Relevant reading

Product simplification:

- Lloyd's Product Simplification paper: [Building simpler insurance products to better protect consumers](#)
- Lloyd's Market Association consumer wordings guidance: [Consumer Wording Guidance \(lmalloyds.com\)](#)
- CII Transparency Guide: [Transparency and insurance: A companion guide to the code of ethics](#)
- University of Nottingham and Browne Jacobson study: [How clear are your policy wordings? | Insurance Law | Browne Jacobson](#)

Skills and capabilities:

- CII Assess: [Introduction to managing change](#) (sign-up required)
- Flux / CII [Innovation Starter Kit](#)
- CII [Innovation subject gateway](#) (CII members only)

Futureset Systemic Risk Masterclasses

Delivered in partnership with the Chartered Insurance Institute (CII) and Lloyd's Market Association (LMA), the Lloyd's Futureset Systemic Risk Masterclass Series explores a number of elements of systemic risk, to support greater understanding and capability across the industry.

Each masterclass combines technical content on a specific element of systemic risk with the knowledge and insight of business leaders and risk experts to help you build a body of knowledge and understanding of the systemic risk landscape.

To view the full schedule and register for upcoming Masterclasses, click [here](#).
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