Richard Waller draws insight from recent research into policyholder communications.

Effective communication

Providing a good quality service to with-profits policyholders is a regulatory requirement. FSA Principle for Business number 7 requires firms to pay due regard to the information needs of their clients, and communicate information to them in a way which is clear, fair and not misleading. This is reinforced by the six TCF consumer outcomes established by FSA during 2006. There are also additional requirements for with-profits business in COBS 16.6.

Setting the rulebook aside, it is approaching 10 years since the insurance industry launched the Raising Standards initiative to improve customer communications. Major brands quickly jumped on the bandwagon and when Raising Standards faded and was replaced by the Customer Impact Scheme it was again strongly supported by the industry. In fact, its latest annual report disclosed that 85 per cent of the life insurance industry are signed up to this scheme, and hence are committed to:

- developing and promoting products and services that meet customer needs
- providing clear information and a good service at the point of sale
- maintaining effective relationships and a good service post-sale.

With this apparently substantial effort going into customer servicing you could be forgiven for thinking that with-profits customers are highly satisfied policyholders enjoying the benefits of their chosen investments. Sadly, this is commonly not the case. The reason for this is simply that people do not generally understand financial services, and probably never will.

There have been many reports into policyholder communications during recent years that have highlighted areas of poor quality. These failings can be broadly summarised as follows:

- weak explanations of risk – the literature does not always make it clear what risks the customer is taking, and/or how their outcome may vary under different circumstances
- weak disclosure of charges – leaving open the possibility that customers will get an unwelcome surprise
- poor explanation of options and guarantees – this has been a common criticism of firms seemingly wanting to keep hidden from the customer valuable aspects of the product
- weak explanations of discretionary aspects – failing to explain how the actions of the insurer may affect the policyholder
- overuse of jargon – too much complex terminology without adequate explanation
- poor layout – customers have not always found it easy to follow the information provided to them
- insufficient relevance – the information provided does not always enable customers to distinguish between the key messages and points of technical detail
- weak flagging of advice – not helping customers with what to do next
- lack of consumer testing – not checking whether customers understand what they are being given.

Addressing these failings is of particular importance for with-profits business given it is one of the least understood products available.

The sentiment of the points above is consistent with some of the consumer research carried out recently. For example, research for the Financial Services Consumer Panel in 2007 found that most consumers did not have a clear idea what investment risks actually are. Another of its findings was that there was a consensus across most consumer groups that you just have to trust the advice that you were given. For with-profits customers this last message does not sit well with the research by Ipsos MORI, also in 2007, that found that advisors were reluctant to advise on with-profits products, possibly because of a lack of understanding on their part, insufficient support from product providers or fears they will be accused of mis-selling.

Whilst there has been a lot of focus on the quality of communications from insurers, less attention has been paid to the customers themselves and their engagement with financial services. A few examples here that offer a different insight are outlined below.

In July 2008, a report for the FSA by the London School of Economics concluded that financial capability initiatives which are designed to inform and educate should be expected to have a positive but modest impact. This is because there is evidence that psychological factors rather than informational differences may explain much of the variation in financial capability. In other words people's financial behaviour may primarily depend on their intrinsic psychological attributes rather than information or skills they have, and how they choose to deploy them.

Previous to that, the Personal Finance Research Centre at the University of Bristol found that levels of financial capability vary significantly by type of person with almost two-thirds of the population having a weakness in one or more of the five aspects of financial capability defined in their research. Significantly, even the most financially capable people were still relatively weak at choosing the right products and might struggle to understand the terms and conditions in the small print of the products they buy.

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Lastly, research carried out by the University of Warwick for The Actuarial Profession found that although greater financial literacy is beneficial, it alone cannot be relied on in seeking to improve financial decision-making. This same research also found that people choosing from a range of options tend to select the middle option whether the overall range is low in value or high.

When the above factors are taken into account, it is easier to see why with-profits policyholders struggle to understand their products, no matter how good the quality of the communications is. However, it would be wrong to conclude from this that there is no point trying to improve the effectiveness of communications. It is surely better to have happy customers than unhappy customers (or no customers) after all.

Treating with-profits policyholders as long-term partners and viewing the communications with them as part of a strategy for preserving their value (or goodwill) may help to make each communication more effective. With this mindset, firms can plan each communication from pre-sale marketing to post-sale servicing to be a positive experience making people feel valued as a customer. Differing strategies could be adopted for different segments of the customer base, perhaps tailored to their level of sophistication or, in the case of post-sale servicing, to ensure greater focus on the customers that contribute most value. Plus, with sufficient data, multifactorial analyses could be employed to develop more predictive models of customer behaviour in support of a more tailored communications strategy.

The FSA TCF regime is driven by outcomes, which means that the test of the firm's communication will be in the effect it has on policyholder actions and satisfaction. Without a coherent communication strategy, the achievement of a successful outcome is, at the very best, being left to luck – a business risk that could have serious financial consequences were things to go wrong.

Conclusion

For organisations that view their with-profits fund as a legacy business, it may be more challenging to devote the resources needed to improve their customer communications strategy away from their focus on growing the franchise around the current new business lines. However, combining a more strategic approach to communicating with with-profits policyholders with ongoing development in the quality of the communications themselves is perhaps a better way to increase the overall effectiveness of those communications. And as we move through recessionary times, with greater pressure on cost-control and an increased risk of adverse policyholder behaviour, this might be quite timely.

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