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Misbuying insurance

WITH

Fairer Finance

THE FINANCE FOUNDATION

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Foreword

To buy insurance is to purchase a rather unusual financial product, one that is to some extent hypothetical in the sense that most of the time it is not going to be used.

For some people the task of buying insurance is just a mandatory condition of other activities – driving a car or taking out a mortgage for instance – to be got out of the way as quickly as possible, or perhaps something that it is convenient to click on without much thought as part of some other process such as booking a holiday. For many people, pooling risk by making relatively small regular contributions that hedge against a potentially catastrophic event, acts as a comfort blanket, allowing them to get on with their lives with less to worry about. But how many of us are just packing the blanket away every year, without noticing how many new holes are appearing or considering whether it might unravel when we most need it?

This timely report, coming as it does after years of concern and scrutiny over how financial products are sold, presents detailed and meticulous research evidence on how people are now buying insurance in this age of the quick click, and how the products on offer are subtly changing. It reveals how the pressure to reduce headline prices on online comparison sites appears to have led to companies “hollowing out” the underlying product, whether by reducing cover, upping fees for amendment or cancellation or raising excesses to levels where vast numbers of claims are simply not worth pursuing.

In particular this report shows that changes in cover levels now mean that people may be unwittingly buying products that no longer provide the level of cover required for the risks being insured. Original survey work carried out for this report suggests

that this problem is compounded by poor understanding by some consumers of what insurance products offer – either expecting cover for things that are not included or in some cases not realising what is insured.

As we debate how to respond to this, we should be looking to the industry and regulator to offer leadership going forward. Consumers need to be presented with products that are absolutely appropriate to their needs, and all price add-ons and quality ratings need to be made explicit at the start of the comparison process. Much has been said in the past about opaque communication, poor website design and policy details buried in interminable terms and conditions. This needs to be tackled now and it should be allied to a default presumption on the upper reading age required to understand insurance documents.

As a society, not just as individuals, it is in our collective interest to make sure people are correctly insured. The statistics on how many people are not insured at all are a cause for concern, not least because it is generally those with least financial resilience who are most likely to be un- or under-insured. Maintaining trust in insurance products so that people can have confidence that they are buying something that will genuinely help them is essential. Getting processes in place so that people are supported, not tripped up, as they go through the purchase journey must also be a priority. We all know that buying insurance is a chore and a bore – we now need to work together to make sure the time invested pays off.

Hilary Cooper
Associate Director
The Finance Foundation

Executive summary

The rise of comparison sites has dramatically changed the way consumers buy insurance. Some 85% of people with access to the internet have now used a comparison site at least once, and the number of insurance brokers has fallen by around 70% over the past three decades.

Although comparison sites have provided consumers with more choice and have increased competition on price, they have also increased the likelihood that consumers end up buying a product that is unsuitable or doesn't meet their needs.

Customers are largely disengaged in the insurance buying process, while comparison sites and insurers are focused on making their purchase journeys as frictionless and quick as possible.

In the first section of this report, we look in detail at how insurance products have changed in the comparison site era – and changes in the way consumers are buying them. Our research supports the theory that there has been some 'hollowing out' of products across the market as a whole, with cover levels being reduced and excesses being increased to reduce insurer costs. This allows them to keep headline prices low, securing higher spots in comparison site search results.

In the worst cases, some products fall well short of the cover levels required to meet the perils that they are insuring.

The downward pressure on headline prices has also led to a proliferation of fees and charges for customers post-purchase. Our research found that amendment and cancellation fees have increased by around 50% in recent years, with some firms charging

as much as £35 to amend a policy and as much as £100 to cancel. These fees are also rarely disclosed clearly to the customer before purchase.

Given the changing nature of insurance, comparison sites should give consumers more support to make the right decisions. While all provide additional quality ratings to support consumers, there is a question around the rigour and usefulness of these ratings.

In the second section of our report, we look at consumer perceptions of insurance. Our survey work confirms that many consumers misunderstand the product features offered by general insurance products. In some cases, customers expect policies to cover them where no cover is offered. And in other cases, customers are unaware that cover exists.

The poor understanding of insurance products manifests itself in a large volume of complaints at the Financial Ombudsman Service, where around a third of cases are overturned and ruled in favour of the customer.[1]

Consumers must be able to make more informed purchases and trust needs to be rebuilt between customers and the insurers who serve them. We believe the FCA needs to provide clearer guidance to both comparison sites and insurers – with the threat of formal regulation if the comparison industry cannot meet what is required of it.

More thought needs to be given to providing the right information to customers at the right time, and insurers need to shorten policy documents and other communications. They must also ensure that these are written in a language that customers can understand.

Our recommendations fall into four categories:

1. Clearing the way for better price competition

The FCA needs to ensure comparison sites ask more detailed question sets, which ensure customers are only presented with price comparisons of policies that meet their needs.

Consumers should also be able to use comparison sites to compare prices of total packages, including all add-ons, rather than adding these while on the insurers' site.

2. Fairer ratings

A greater responsibility should be placed on comparison sites to ensure that all information provided to customers on their site is appropriate.

In particular, comparison sites should be able to demonstrate that customer satisfaction and expert ratings are as accurate as possible and add value for the customers who rely on them.

3. Holding insurers to a higher bar

The FCA should make it clear that it is incumbent on insurers to bring misunderstood elements of their policies to the attention of consumers, slowing down the purchase process.

Clearer guidance should also be given around the suitable level of fees and charges. Although the FCA has already said insurance charges should go no further than covering costs, more detail is required around what costs can be taken into consideration in this calculation.

Insurers should also be required to give consideration to the experience of the customer who is buying from them. First time customers should be taken through a longer journey with more detailed explanations of product features.

4. Smarter Communications

We believe the FCA should issue guidance setting an expectation that all consumer insurance documents have a reading age of 13 or less. In the US, some states have legislated to ensure documents are below a certain reading age.

The possibility of introducing regulations to prescribe maximum reading ages should remain on the table in the event the industry does not respond to the guidance. Firms should also be held to account for designing documents and websites in a way that reduces comprehension. For example, it's not uncommon to find small font sizes, poor colour contrast, or a lack of white space.

Particular attention needs to be given to documents and information disseminated via a mobile device where screens are relatively small.

Background

The UK Insurance Market – Overview

The UK has the fourth largest insurance and long term savings industry in the world, contributing £35bn to the UK economy.[2] Over the last 10 to 15 years, the ways in which consumers engage in this market have changed considerably.

The rise of comparison sites has had a dramatic impact on the insurance industry. More consumers are relying on them both as a means to find a good deal and as sources of product information than ever before. This is a substantial shift from the more traditional method of using a broker. In fact, there are currently only around 3,000 insurance brokers in the UK. That's a sharp decline from the 10,000 firms that existed in the 1980s.[3]

More than ever before, consumers are turning to websites and other digital tools to buy insurance without taking advice from a third party.

The Rise of Comparison Sites

The largest Digital Comparison Tools (DCTs), known as the 'Big Four', are GoCompare, Confused.com, MoneySuperMarket, and Comparethemarket.com. The Competition and Markets Authority's (CMA) 2017 study on the DCT[4] shows that, in 2015, the largest DCTs accounted for 11 million transactions in four sectors alone.

Nearly nine out of ten (85%) consumers with access to the internet have used a DCT at least once,[4] and this number is increasing. In home insurance, the largest DCTs saw growth of 12% in visits and 44% in sales in the three years to October 2016.[4]

The ever-increasing use of comparison sites presents many opportunities for consumers to find good deals quickly and easily. However, it also presents potential risks.

Although DCTs provide an easy way for consumers to compare prices, they don't always make it as easy for customers to ensure they end up with a product which is suitable. This is a growing problem in a market where products are increasingly complex. Home and travel insurance policy documents often run to over 20,000 words in length – with drastic differences in cover levels and benefits and exclusions across the market as a whole.

To ensure their products are presented towards the top of DCT search rankings, insurers are forced to keep prices low, often at levels which may be unsustainable. This leaves insurers looking to recoup lost revenue in other ways, which can present risks for consumers.

One common market practice that has been exacerbated by intense price competition is so-called 'dual pricing'. This is where insurers offer loss-leading rates for new customers in the hope of pushing through significant price rises at renewal.

Other firms look to offer competitive prices by reducing levels of cover or 'hollowing out' their products. Alternatively, firms may look for additional ways of raising revenue post-purchase, by selling additional products, or levying fees and charges.

For 75% of DCT users, these digital tools were their main or only source of information the last time they shopped around.[4] This places a great responsibility on comparison sites to support customers in making good decisions. But this aim grates against the industry's desire to make customer journeys as quick and

painless as possible, keeping question sets and friction to a minimum to ensure the customer doesn't drop out before completing a purchase.

The risk here is that key information is not disclosed in the right way.

In this report we will examine the extent to which customers understand the products that they are buying, and to which they are buying products which meet their needs.

We'll examine the ways in which DCTs disclose and compare key product features, such as cover limits, excesses, and fees – as well as the disclosure of information on providers' websites.

The first section of the report looks to shed light on how insurance products are changing. The second section analyses consumer understanding and expectations of insurance.

Our research

To understand the changing nature of insurance products, we collected data on over 1,200 car, home and travel insurance products in 2016 and 2017, monitoring any changes to cover. We also interviewed senior stakeholders in the insurance industry to gather evidence on how they had seen cover levels, excesses and fees change over the past three decades.

To understand customer expectations of insurance, we carried out polling with the support of insight agency Opinium.

We also mystery shopped comparison sites and insurer product journeys – and analysed the data that sits behind our Customer Experience transparency ratings.

Consumer polling methodology

The consumer research compiled for the report was conducted by Opinium on behalf of Fairer Finance.

A quantitative survey was created to find out consumer insight into whether they were aware of the coverage provided by their general insurance policies.

In July 2017, 38 questions were asked to 2,010 consumers to Opinium's *Consumer Omnibus*. This is a nationally representative audience, with data weighted to ONS criteria. Data was analysed by the Fairer Finance research team.

Comparing comparison site products to direct products

Providers often create products specifically for DCT platforms, which cannot be purchased directly.

We compared the DCT-only products with the same or similar products on offer via providers' websites.

Specifically, we compared excess levels and cancellation cover limits for equivalent policies offered via different channels.

For example, a provider may offer 'Bronze', 'Silver' and 'Gold' policies directly, and offer 'Economy', 'Standard' and 'Premier' policies via DCTs. A 'Bronze' policy would be compared to an 'Economy' policy, a 'Silver' to a 'Standard' and so on.

We only focused on providers where a like-for-like comparison could be made. For example, if a provider offered three direct products, and four comparison site products, these would not be compared.

Our industry data / product ratings

We collected data about insurance policies across three product sectors - car insurance, home insurance (buildings and contents), and travel insurance. We started our research process by compiling a comprehensive list of all product features for every product in the sectors we are analysing.

We did this by analysing policy documents, and by mystery shopping (carrying out online purchase journeys and telephoning customer service centres). We began data collection in September 2016 and have updated the data and tracked any changes in cover levels, excesses or fees throughout 2017 and the start of 2018.

SECTION ONE

The complex and changing nature of insurance products

The world of modern insurance for consumers can trace its routes back to the Great Fire of London in the 17th century, when many thousands of people lost their homes and everything they owned.

It was clear there was a need to better protect people from the losses and danger that a fire could bring. In response, a number of firms set up their own fire brigades, pledging to protect any properties where the owners had signed up and paid their dues. Homes which were 'insured' would wear the badge of their insurer above the door. In the event of a fire, only those who had bought insurance would have their properties saved. Neighbouring properties would be left to burn.

Three and a half centuries later, insurance has evolved far beyond the vision of its creators. Home insurance still covers homeowners against the risk of fire. But today, you can also expect to be covered against the risk of floods, storms, subsidence, theft – as well as numerous bells and whistles that have stretched the concept far beyond its starting point. Many home insurance policies, for example, now cover you for perils as diverse as the cost of evicting squatters from your property, or the cost of replacing frozen food in the event the power supply fails and ruins everything in your freezer.

Each of these additional features add utility for insurance customers at the same time as adding complexity. The average home insurance policy now runs to just over 20,000 words, whilst the longest comes in at over 40,000. That's longer than novels such as *Animal Farm* and *Of Mice and Men*.

Since the advent of DCTs, insurance has continued to evolve – but in different ways. The intense pressure on price has forced firms to search for more innovative ways of controlling costs or bringing in income.

One tactic has been to reduce the levels of cover that policies offer – which in turn reduces the amount that insurers are potentially liable for in claims. This concept is known in the industry as 'hollowing out'. Another manifestation of hollowing out is the increasing of excesses – which excludes a greater number of smaller claims and increases the chance that claims just over the excess won't be deemed worthwhile.

Although it's a concept that many in the industry acknowledge has been taking place, it is not an easy concept to prove. Insurers don't publish details of how cover levels and features have changed over time.

In preparation for this report, Fairer Finance began collecting product data in the final quarter of 2016. Even in the relatively short period of time since then, we have found some evidence that supports the theory of hollowing out. We have supplemented these findings, by using historical internet searches as well as interviews with people who have worked in the industry for a long period of time, to further support the theory.

In 2016, for example, Lloyds raised its excess for "escape of water" claims from £250 to £350, joining dozens of other firms who have excesses at a similar level. Axa's Northern Ireland site states that it now imposes an escape of water excess of £300, up from £200 in 2015.[5] John Lewis also increased its escape of water excess from £250 to £350 last year.

The idea of using special excesses for certain types of claim has caught on over the past couple of decades, with all but three of the

162 home insurance policies analysed by Fairer Finance now charging an escape of water excess. The most common level is £250. But there are escape of water excesses as high as £500, and there has been general upward trend in the level of these excesses.

Higher excesses have a dual impact for insurers, reducing the amount that needs to be paid for successful claims as well as reducing the number of smaller claims that are made.

Other examples of hollowing out identified in our data set over the past year include:

- Admiral's car insurance windscreen replacement excess rising from £75 to £95
- Legal & General increasing its compulsory excess on its home insurance from £100 to £150
- Nationwide changing its home insurance supplier resulting in a number of reduced cover limits in areas including: trace and access and locks and liability (although cover limits are higher for temporary accommodation and money stolen from the home).

Disclosure of Fees

Fees and charges have become a key income stream for insurers over the past few years. In response to growing pressure on headline prices, insurers resort to reclaiming costs from certain sets of consumers post-purchase.

Many insurers levy amendment and cancellation fees. In our analysis of 172 home insurance policies, the average amendment fee is £8, but it can be as much as £35. Cancellation fees are usually higher, with the average being £24 – but stretching to as much as £75.

Within car insurance, these charges are even more expensive. The average amendment fee for 125 policies analysed was £23, with £50 being the maximum. This has risen from an average of £15 in 2005. Cancellation fees are on average £46, up from an average of £31 in 2005 - but some insurers charge as much as £100.[6]

Direct Line – one of the largest motor insurers in the UK – now charges £48.16 for cancelling a policy – up from £26.25 in 2010. It has, however, bucked the trend on amendment fees, by scrapping them altogether.

The principle of additional fees and charges in insurance is questionable from a fairness perspective. A proportion of customers will inevitably need to make changes to their policies each year, as their circumstances may unexpectedly change. It would perhaps be fairer if the cost of servicing this minority of customers was absorbed in the headline price. After all, it is unlikely that they anticipate needing to make a change.

If companies do wish to charge, then the FCA has made it clear that they should pass on no more than their costs. However, it remains doubtful that this guidance is being adhered to – given the 50% rise in amendment fees over the past 13 years (well above the level of inflation).

This principle is also all but impossible to police without more prescriptive regulation and supervision.

The cost of making a change to a policy could be deemed to be the price of a piece of paper, envelope and a stamp – a matter of pence. But a firm could also allocate part of the total cost of its call centre, the cost of office space, the cost of its canteen and some of its HR team who recruit and look after the customer service staff. Clearly the existing rules leave a large amount of discretion in the hands of insurers – hence the wide range in fees being charged.

If such fees are continued to be charged, it is important that consumers are made aware of them before they commit to a contract.

Let's say a customer is looking at taking a flight. They need to be able to understand what the cost of baggage and food might be before they can make an informed decision about which airline to pick. It's the same in the insurance market. They also need to understand what fees and charges may be levied before they can make a decision on which policy to buy.

When searching for car and home insurance on the Big Four DCTs, three do not state any information on fees. The only one that does, Compare The Market, concedes that the information provided is not complete. It suggests that customers look in the policy documents to find the complete information.

However, analysis from our Customer Experience Ratings shows that this will often not provide the answer either. Out of 46 car insurance providers, half (50%) do not itemise fees in their policy documents. The case is the same for 46 home insurers analysed in our ratings, with half (50%) not detailing the amount of each fee in their policy documents.

Insurers told us that they are reluctant to put fees in their policy documents as they don't want to have to bear additional printing costs if they decide to change their fees before the next version of the policy document is due to go to press.

This principle is often extended to cover levels and excesses – which are left out of policy documents to give providers more flexibility to alter cover without having to print new policy documents. This is a barrier to consumers when they are in the information gathering phase of their insurance purchase process[7].

Anecdotal evidence from newspaper reports and Ombudsman case history suggests that consumers are often surprised and frustrated by the growing number of fees charged by insurers[7]. This is no surprise given that our transparency research reveals that only 15 of 51 car insurance brands analysed by Fairer Finance clearly disclose these fees during the online purchase process.

The Difference Between Comparison Site and Direct Products

Further evidence of the hollowing out of product features can be found by comparing the different product offerings that providers have on comparison sites as opposed to available directly.

In the travel insurance sector, Fairer Finance identified significant differences between products offered directly and products offered via the Big Four DCTs. Comparing 99 travel policies, there

were fundamental differences in both cover limits and excesses. Overall, products only offered via DCTs tended to have lower cover limits and higher excesses than equivalent policies offered directly by the same provider.

Two thirds of comparison site policies analysed (66%) had higher excesses than their direct counterparts. On average, the compulsory excess was £33 higher. No indication is given on comparison sites that a DCT-specific product's low headline price may be counter-balanced by higher compulsory costs.

The same is true when comparing cover limits. Looking specifically at cancellation cover, on average comparison site products had a limit of £1,119 less compared to buying the policy directly. Again, no indication is given that these policies are less substantial.

The Association of British Insurers (ABI) states that they are "of the view that more can be done to help consumers compare the levels of cover offered...and excess levels." [8]

The European Insurance and Occupational Pensions Authority (EIOPA) echoes this point. It has stated that "price comparison sites and self-service online models have been a fundamental driver of consumers' increased focus on headline price and brand, which potentially distracts them from other crucial policy features, such as policy coverage and terms".[9]

Cover Provided But Not Enough

In our mystery shopping of online consumer DCT consumer journeys, we found that results tables were often cluttered with (too much) information, or did not have enough information around product features.

More importantly, customers were generally not asked about their needs during the comparison site question set. Travel insurance is

the worst in this respect – with most question sets simply asking basic details such as age, region of destination and whether the customer has any pre-existing medical conditions. There is no attempt to understand whether the customer may need cover for baggage, valuables, curtailment – and more importantly there is no attempt to interrogate what levels of cover they may need.

In home insurance, there's often insufficient support for customers in determining what a suitable level of cover may be for their contents insurance. All the major comparison sites include some broad-brush help text. But there's nothing that is likely to help consumers make what is a very difficult calculation. Compare The Market and Confused both include calculators – but these simply allow you to break down the total by room.

The difficulty for consumers is that they are unlikely to know what the right level of cover is for many perils. And the consequences of getting it wrong can be considerable.

Many insurers use a system known as 'proportionate remedy'. This means that if you choose £15,000 of cover but are later assessed as having £30,000, they will only pay half the claim even if you are claiming below your £15,000 limit.

Our research found that many products offer cover for an identified need, but not to an adequate level. An example can be found in car insurance where four out of five policies we examined will pay for the locks to be changed if your car keys are stolen.

Of these policies, however, 58% offer cover below £700. The average cost of replacing a set of car locks is £689.[10] This is another instance in which the customer might find themselves with inadequate cover.

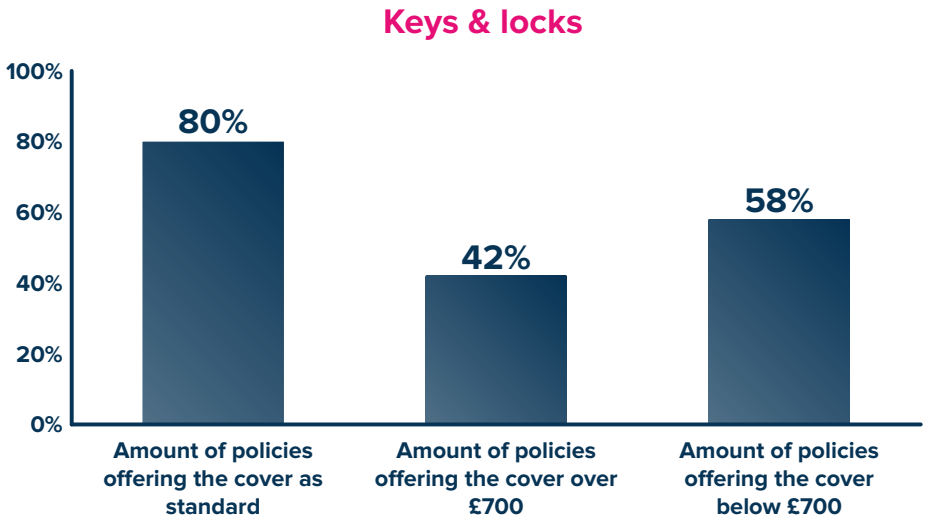


Figure 1: Amount of cover provided for keys & locks

This practice can also be found in travel insurance. For example, a majority of providers offer cover for loss of cash, but some charge an excess high enough for it to potentially not be worth making a claim. We have found that of the policies that cover loss of cash, 12% have a cover limit that is higher than the excess by £50 or less.

Fourteen policies we examined had an excess equal to or higher than the cover limit. In these cases, there is effectively no cover and the customer should be made aware of this.

Ideally, consumers would be asked about the type of cover they need in detail and given comparisons of products that – as a minimum – meet their stated needs. Instead, they are provided prices for core cover, which may or may not meet their needs. Often, they are only shown the price of add-ons once they have left the DCT environment and moved onto the site of their chosen provider.

At this point, they have lost the ability to compare total costs.

Confusion of ratings

One of the key benefits of the growth of DCTs has been the empowerment of customers to compare dozens of insurance policies within a few minutes and complete a purchase within a few more.

But without the advice of an intermediary, many customers are not equipped to navigate the complexity of the market to ensure they buy the right product.

As a result, many customers turn to ratings systems as a shortcut to make better decisions.

As statistician George E.P Box famously said, “all models are wrong, some are useful”. This is certainly true with ratings systems. There is a risk that the current prevalent ratings systems such as Defaqto and Moneyfacts (which look at product features), and Trustpilot, Feefo and Reviews.co.uk (which look at customer reviews) do not give an accurate reflection of the performance of a company.

Further, we found clear evidence that these rating systems are gamed by insurers. In the case of Defaqto ratings, insurers regularly add in superfluous product features in pursuit of five star ratings, which may be to compensate for reductions in more important areas of cover.

Numerous insurers told us that they do this – and as a result, in many sectors, Defaqto now awards 5 stars to over a third of products. In one sector, we found 5 stars had been awarded to 60% of products.[11]

Cover for medical treatment included on travel insurance policies is a good example of an area where limits have spiralled well beyond the customer need. Some of this is driven by a desire to chase higher points in ratings systems. In other cases, firms are looking to

impress consumers with large numbers in an area where the customer is unlikely to have any frame of reference around what cover level is needed.

In our analysis of 940 travel insurance policies, we found average medical cover of just over £10 million. This was also the most common amount of cover provided. However, the ABI cites a £768,000 claim as one of the highest it has ever recorded.[12] Analysis from goodtogoinsurance.com shows the average cost of a medical insurance claim is £2,268, with £148,341 being the highest recorded in 2013.[13]

A Technical Manager at one of the UK's largest insurers told us that "cover levels are so high because providers are trying to make their products look [better] without actually increasing their exposure". The FCA mirrors this statement in its review of price comparison sites. It states that "respondents assumed that travel insurance with medical cover of £20million must be better than an alternative product with medical cover of £10million, often without looking into this further or considering what they might actually need".[14]

DCTs facilitate the implication that higher cover is better by drawing attention to these features on their limited results pages. Of the Big Four DCTs, all allow consumers to filter results by medical cover. GoCompare, MoneySuperMarket, and Confused all state medical cover as one of three cover limits surfaced in the search results. For Compare The Market, medical cover is one of four cover limits surfaced in the search results.

SECTION TWO

What customers expect from insurance

As the previous section demonstrates, insurance products have become increasingly complex over the past few decades. Many new innovations go well beyond the core benefits that these products traditionally offered. In other cases, cover has been reduced or excesses have been changed.

Although many core product benefits were established well before DCTs became a key distribution channel, many of these older features are not intuitive. With most purchases now taking place without an intermediary or sales operative to explain the limitations of cover, there's a growing risk that customers fail to understand what they're buying.

To understand whether consumers' knowledge has kept pace with the changing nature of insurance, we carried out polling work with the insight agency Opinium.

The questions focused on areas of cover that were frequently the subject of disputes in Ombudsman case history, or areas which insurers highlighted as generating high levels of complaints

Wear and tear

Two major insurers told us that the most common cause of complaint from home insurance customers related to wear and tear. And according to the Financial Ombudsman Service's (FOS) complaints database for 2016 a third of challenges relating to wear and tear were upheld in favour of the customer.

Wear and tear has been a universal exclusion across home insurance products for many years. It preserves the principle that insurance is there for the unexpected, and not for incidents which could have reasonably been prevented by adequate maintenance.

However, in our survey, the majority of consumers (55%) said they would expect wear and tear of their property to be covered by their insurer to some degree.

In our Autumn 2017 Customer Experience Ratings, none of 46 of the UK's largest home insurance providers we rated made customers aware of this exclusion in the purchase journey. Similarly, none of the Big Four DCTs mention wear and tear, despite it applying to all policies they offer.

Figure 2: Consumer expectations vs. cover provided for wear and tear

The level of consumer misunderstanding over a core tenet of home insurance illustrates the perils of the direct model. While

Ombudsman statistics and insurers' own data points to a lack of understanding around wear and tear, neither insurers or DCTs are keen to slow down the purchase journey by explaining it.

Matching sets and suites

When part of a fitted kitchen or furniture suite is damaged, it can be difficult to find an exact replacement. This may mean that the only way to retain a matching set of kitchen units, or a matching three piece suite, is to replace the entire set – even though only a part of it has been damaged.

Our product research revealed that only a quarter of insurers will replace all the non-damaged items that form part of a set. A further 8% will pay for 50% of the undamaged items – a standard which the Ombudsman tends to hold insurers to if cases about matching suites cross its desk. However, over two-thirds of policies will pay nothing towards the undamaged items.

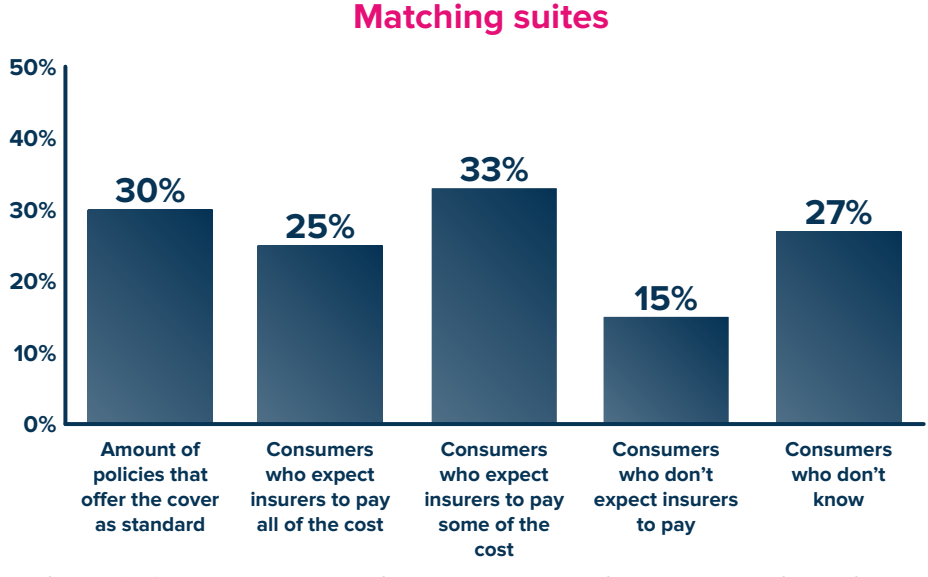


Figure 3: Consumer expectations vs. cover provided for matching suites

As the chart above shows, however, this is not consistent with customer expectations. In our poll, the majority of customers (58%) expected insurers to pay at least part of the cost of replacing the undamaged matching items. Only around one in seven (15%) didn't expect insurers to pay anything.

Courtesy car

It's common practice for car insurance policies to provide a rental car if the customer's car is off the road. However, our product research found that while 95% of policies will provide a courtesy car while a customer's car is being repaired, only 15% of the market provide one if their car has been written off.

Understandably, consumers expect that if their car is off the road – no matter the situation – they will receive a courtesy car if that was included as part of their policy. In our survey, nearly two thirds (61%) expected this to be covered to some extent.

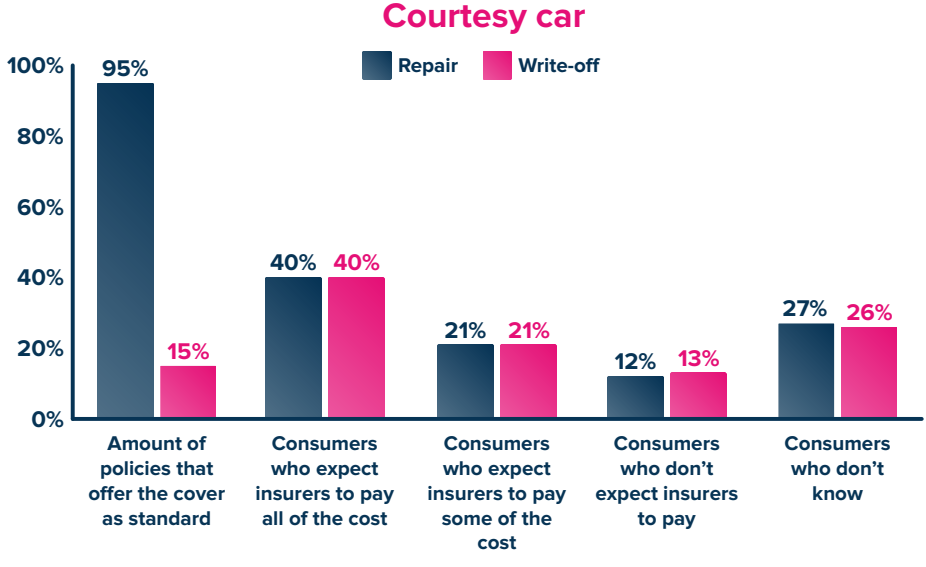


Figure 4: Customer expectations vs. cover provided for courtesy car

DCTs and insurers do little to help consumers understand this. According to our transparency research – which we carry out by mystery shopping insurers' online purchase journeys every six months – just 41% of insurers clearly explain this anomaly.

Most show courtesy car cover as either being provided or not. What tends not to be explained is the circumstances in which the courtesy car will be provided. Many don't explain what type of car will be provided, under which circumstances, or how long the customer can use it for.

This is causing both consumer and provider detriment. Consumers are taking out policies without adequate understanding of their features, and providers are having to pay for courtesy car claims they had excluded. In 2016, 46% of Ombudsman complaints relating to the provision of a courtesy car were upheld in favour of the customer.

The FCA has highlighted issues in the way DCTs disclose this information, stating that comparison sites are "not providing sufficient information". This leads to disappointment among consumers, as there is "a gap in expectations".[15] Our consumer research confirms this substantial gap between customer expectation and reality.

Audio/visual equipment

The fact that consumers are not being made aware of what's excluded from their policies is an important issue. But we've also found that, in some cases, the opposite problem exists. Our research has revealed evidence of insurance policies offering cover which customers simply aren't aware of.

One key example is cover for audio/visual (AV) equipment in car insurance. This is an area in which cover levels are actually very

high throughout the industry. 98% of policies we examined provided at least some cover for original AV equipment, and 89% policies offered unlimited cover. Despite this, only 57% of consumers expected their insurance to pay claims of this type.

For AV equipment that had been added to the car after purchase, expectations were even lower, with just 41% expecting their insurance to pay out for damage or theft of this equipment. Whilst cover for this is slightly lower throughout the industry, it's still covered to some extent by 93% of policies.

This contrasts strongly with consumer expectations. A quarter of consumers don't expect to be covered for added AV, and a third simply don't know. This results in a significant possibility that customers won't claim for cover that they've paid for.

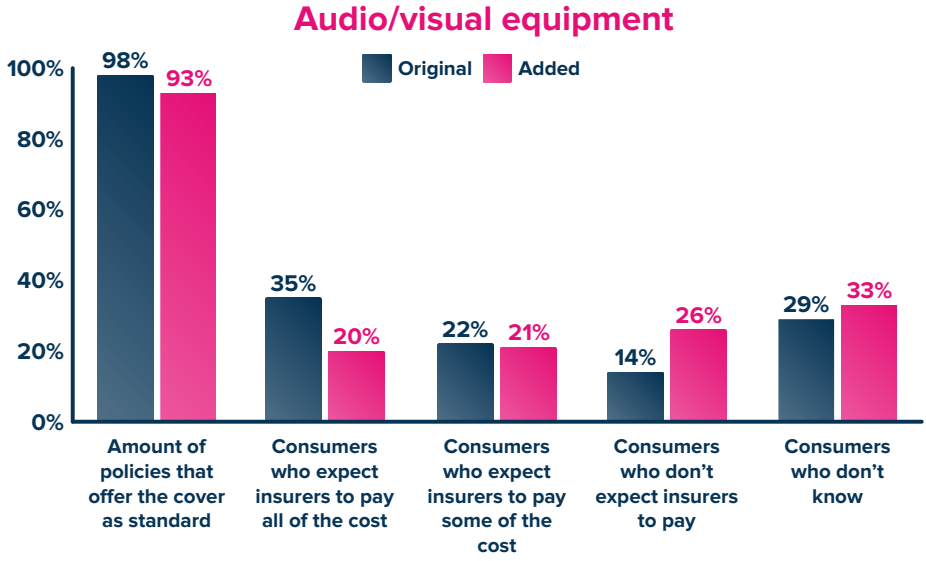


Figure 5: Consumer expectations vs. cover provided for audio/visual equipment

Another example of this, also from the world of car insurance, is cover for child car seats. Many insurance policies will cover the cost of replacing child car seats involved in an accident, even if there is no visible damage. A lot of consumers don't realise this.

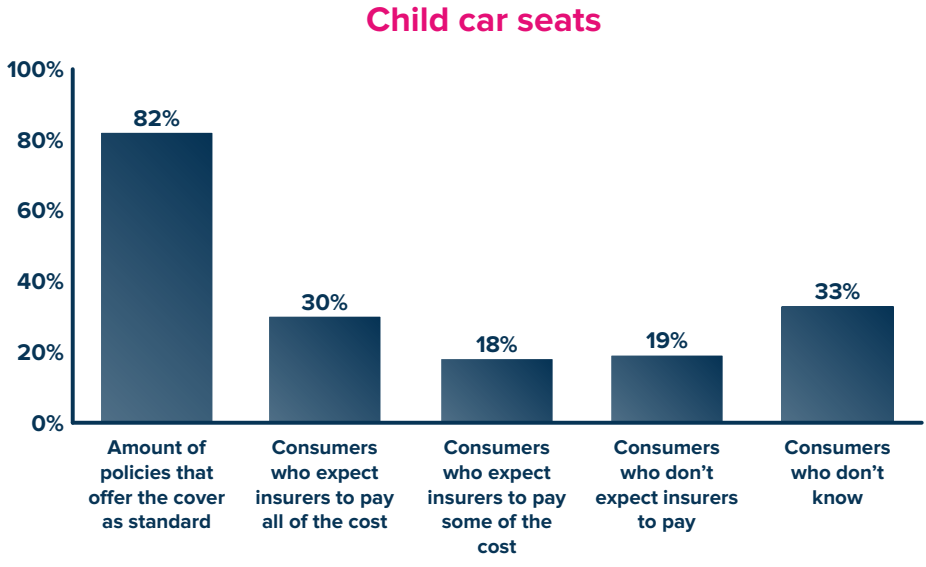


Figure 6: Consumer expectation vs. cover provided for child car seats

Of policies we examined, more than four in five offer this cover, but only 48% of consumers surveyed said they would expect their insurer to pay at least some of this cost. A third of customers didn't know if they were covered or not.

Many consumers are not suitably aware of what their insurance does and doesn't cover. This can lead to disappointment, 'missed' claims, and a poor perception of the industry as a whole. Insurers should be highlighting core features of their policies to consumers, particularly features which are most relevant to, and expected by, consumers.

It's in the interests of both consumers and providers to make cover and exclusions very clear before the point of purchase.

Low levels of understanding

More broadly, our research demonstrated that there are generally low levels of understanding around types and levels of insurance cover.

Our consumer research into customer expectations within car, home, and travel insurance asked customers whether they expected certain risks to be covered. Across a range of areas within these three sectors, nearly a third of consumers said they "didn't know".

A good demonstration of this is consumers' understanding of curtailment – part of travel insurance which covers customers should they need to cut their holiday short due to unforeseen circumstances. Nearly half of consumers surveyed (43%) weren't sure whether this cover would be provided or not.

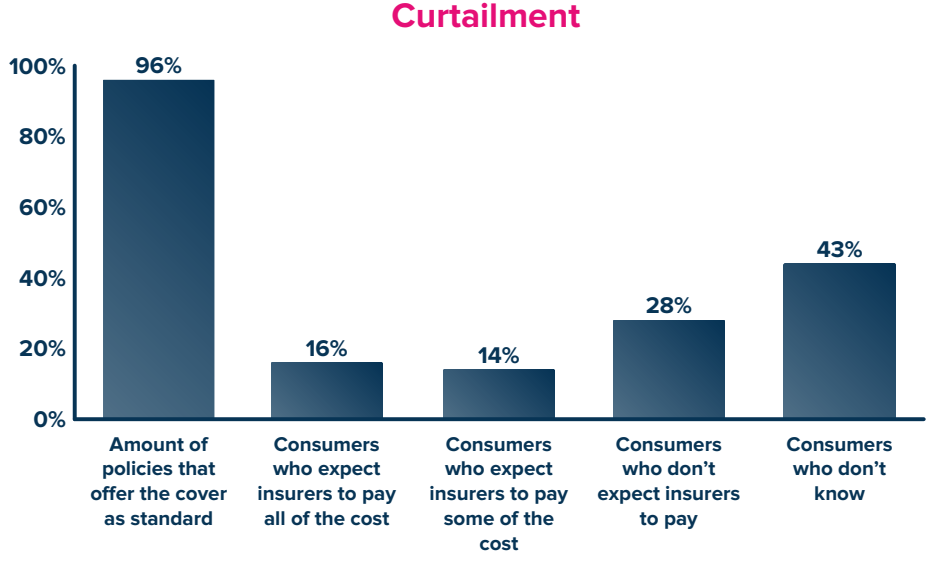


Figure 7: Consumer expectations vs. cover provided for curtailment

Within home insurance, trace and access is another key example of this. This cover is for repairing damage caused by finding and fixing the source of a leak. Whilst this is a fundamental part of home insurance, over a third of consumers (35%) didn't know whether they would be covered for this situation.

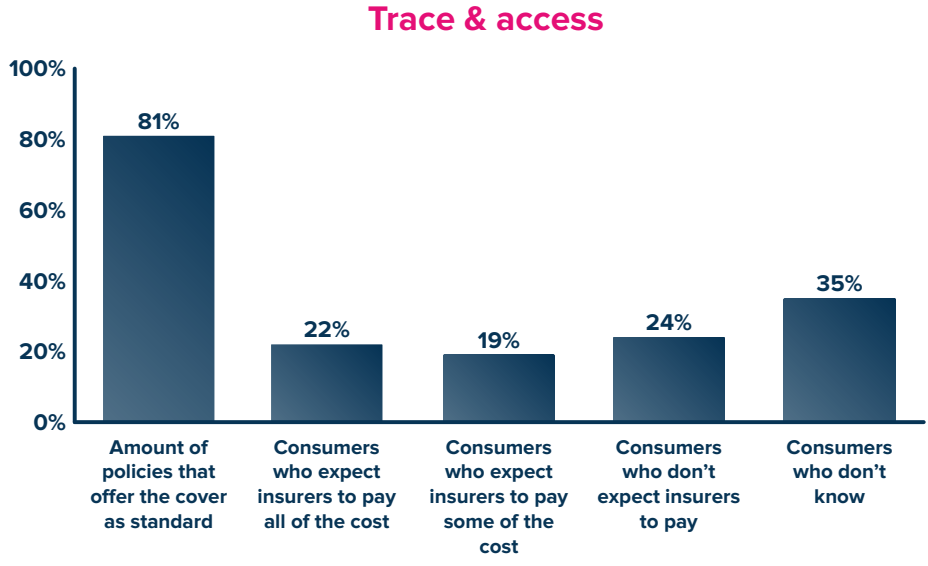


Figure 8: Consumer expectations vs. cover provided for trace and access

Both of these cover features have names based in industry jargon. While consumers probably know what a courtesy car is, terms like 'curtailment' and 'trace and access' have far less obvious meanings. This lack of understanding was apparent despite us giving consumers examples in our survey to avoid using this jargon. Additional attention should be paid to these features by DCTs to ensure consumers are adequately informed. Without this, there can be no true comparison of policies.

The lack of consumer understanding is likely to lead to poor outcomes. In some cases, consumers are losing out by buying cover which does not meet their needs – and only finding out when a claim is rejected.

According to Coverbuilder, one in 10 consumers surveyed said they had a home insurance claim fail in the past, either due to holding invalid or insufficient cover.[6] Meanwhile, analysis from Direct Line shows that over the past five years more than half of claimants had underinsured their contents.[17]

DCTs currently do little to support consumers in understanding the products they are buying. The FCA's report into DCTs shows that "some consumers mistakenly believe that the price comparison website provides them with quotes on the best policy for their individual needs".[18] DCTs must be more transparent in the way they offer policies to consumers, and on what key cover limits and exclusions apply.

Conclusions and recommendations

The growth of DCTs and direct sales in the insurance market has increased the risk of consumers misbuying products that either don't meet their needs or go well beyond what is necessary.

Our research has shown that this problem is intensifying due to the fast changing nature of products in response to the increased pressure on headline prices.

There is evidence that products continue to be hollowed out – either by reducing cover limits or increasing excesses. At the same time, fees and charges for cancellation and amendments have been rising.

Our consumer research paints a picture of confusion around what is and isn't covered. While the majority of insurance claims are paid, there is a significant minority of consumers who will only discover that their cover falls short of their needs when they make a claim.

The problems around lack of understanding are compounded by the desire of all parties to ensure the purchase journey is as short and frictionless as possible. Consumers have no more desire than insurers and DCTs to extend the amount of time taken to complete their purchase.

But the consequences of a persistently poor level of understanding amongst consumers is that trust levels in the insurance industry remain low. Average trust scores in Fairer Finance's customer experience ratings are much lower for insurers than banks. In the travel and motor insurance sectors, the average trust score for providers is 43%, significantly lower than the average of 51% in the bank accounts and savings sectors.

We believe these trust levels are held back by a failure across the industry to reliably set customer expectations. For the minority of consumers who have complaints rejected, the stakes are often high, and the experience reinforces a suspicion that all insurers will try to avoid paying claims where they can. This impacts customers' desire to be loyal to any individual brand, forcing companies into a considerable spend on acquiring new business every year.

The failure to set customer expectations does not only have repercussions for customer trust in the industry. It also drives a higher proportion of upholds at the Financial Ombudsman Service.

By not clearly explaining anomalies such as courtesy cars not being provided when a car is written off, insurers increase the likelihood of complaints going against them when they are referred to the Ombudsman.

Burying exclusions in the terms and conditions is increasingly not seen as going far enough to alert customers to what is and isn't covered. Although insurers are already bound by the principles of Treating Customers Fairly, the bar will be raised later this year when the Insurance Distribution Directive comes into force, which requires insurers to act in their "customers' best interests".

To meet this high bar, insurers will need to go further to help customers make better choices – even when they are buying direct.

Recommendations

1. Clearing the way for better price comparison

We believe clearer guidance is required from the regulator to slow down the process of buying insurance.

Comparison sites need to be given the freedom to ask more detailed question sets, which ensure customers are only presented with policies that meet their needs.

As things stand, some comparison sites feel restrained from going down this path as concerns have been raised that this could constitute advice. The regulator must clear up the ambiguity around where the boundary of advice sits in this market – allowing comparison sites to ask more detailed questions of consumers, which in turn enables them to provide price comparisons of appropriate products.

This should include the ability for consumers to compare total costs including all add-ons whilst still in the comparison site environment. By adding these on once on the insurer site, consumers lose the ability to ensure they get the best overall deal.

2. Fairer ratings

A greater responsibility should be placed on comparison sites to ensure that all information provided to customers on their site is appropriate. In particular, comparison sites should be able to demonstrate that customer satisfaction ratings are compiled using sufficient sample sizes. They also need to demonstrate that samples are compiled in a way that does not bias the outcomes, and that questions are asked at a suitable time in the customer lifecycle.

Comparison sites should also be expected to demonstrate that any expert ratings on their site – such as Defaqto, Moneyfacts and Fairer Finance – are compiled in a way that adds value for the customer and does not mislead them.

3. Holding insurers to a higher bar

The introduction of the Customers' Best Interests test – as part of the Insurance Distribution Directive – gives the FCA the chance to restate its expectations of insurers selling direct to consumers or through DCTs.

The FCA should make it clear that it is incumbent on insurers to bring misunderstood elements of their policies to consumers' attention.

During the purchase journey, insurers should be expected to provide clear explanations of features including:

- How different product excesses are applied
- Whether cover levels may fall short of what is required for certain claims

- The cost of paying in monthly instalments
- Exclusions that differ from other products in the market
- Exclusions that give rise to large numbers of complaints
- The level of fees and charges.

Clearer guidance should also be given around the suitable level of fees and charges. Although the FCA has already said insurance charges should go no further than covering costs, more detail is required around what costs can be taken into consideration in this calculation.

Insurers should also be required to give consideration to the experience of the customer who is buying from them. First-time customers should be taken through a longer journey with more detailed explanations of product features.

4. Smarter Communications

The FCA's Smarter Communications paper raises concerns around the length and complexity of terms and conditions and customer communications. But few companies have responded to this an adequate manner so far.

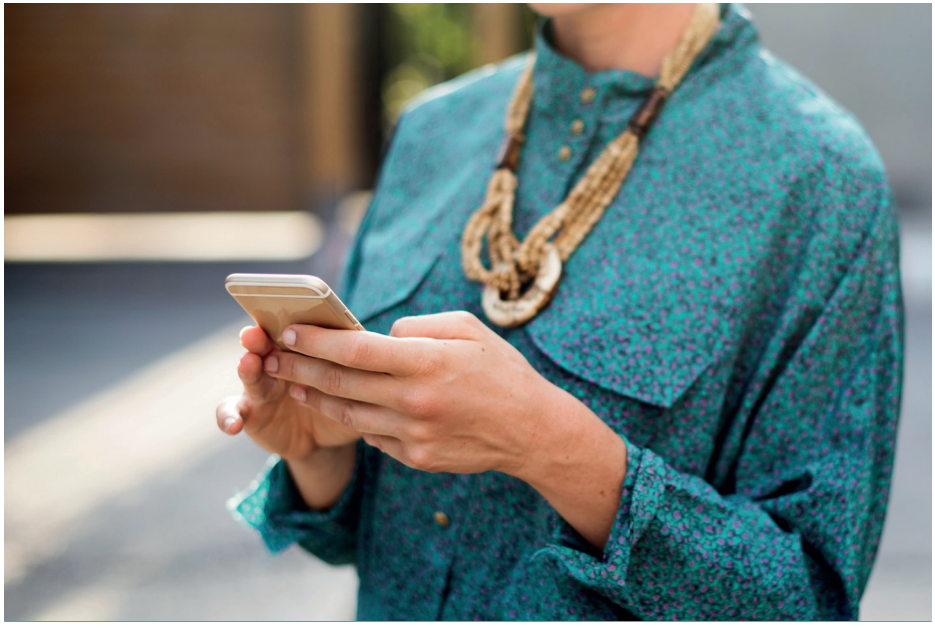
The average reading age of insurance policy documents is 16 to 17 years old. Yet around 15% of adults have a reading age of 11 or less.[19]

We believe the FCA should issue guidance setting an expectation that all consumer insurance documents have a reading age of 13 or less.

In the US, some states have legislated to ensure documents are below a certain reading age. The possibility of introducing maximum reading ages should remain on the table in the event the industry does not respond to the guidance.

Firms should also be held to account for designing documents and websites in a way that reduces comprehension – e.g. small font sizes, poor colour contrast, lack of white space. Particular attention needs to be given to documents and information disseminated via a mobile device where screens are relatively small.

The FCA should also provide clearer guidance around ways of engaging customers with information. The use of mandatory videos for consumers – perhaps played at the payment screen – could be an effective way of disseminating crucial information to consumers who are disengaged in the purchase of their insurance.



Appendix

1. https://www.moneymarketing.co.uk/fos-not-consumer-champion/
2. https://www.abi.org.uk/globalassets/sitecore/files/documents/publications/public/2016/keyfacts/abi- ukinsuranceandlongtermsavings-keyfacts.pdf
3. https://www.schemeserve.com/blog/decline-insurance-broker-numbers
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