

## CONSUMER AWARENESS AND EDUCATION

While the guiding principles in supervising the insurance industry are to ensure an efficient, fair and sound insurance industry, the underlying objective of these principles is the protection of policy owners' interests so that public confidence in the insurance industry is preserved. Prudential regulation has been the traditional means by which this is achieved. However, in the rapidly changing financial landscape, prudential regulation alone cannot be effective in ensuring protection of policy owners' interests. Increasing attention needs to be given to strategies that promote consumer awareness and education as it provides an important safeguard against unfair practices that undermine the integrity of the industry. This article discusses the forces driving this development, the evolving role of consumer awareness and education programmes, current consumer issues and recommendations for an effective consumer awareness strategy as the way forward.

### Driving Forces

The increasingly global and integrated economic environment and financial markets as well as the advancement in technology will steer the future landscape of the financial system. The various forces created by this changing financial landscape that drive the need for consumer awareness to be enhanced are as follows:-

- **Changing demographic and increasing sophisticated needs of consumers**  
Increasing per capita income of the nation and the growing middle class group has changed the behaviour of consumers towards products and services. As consumers become more affluent and their needs increasingly sophisticated, they will demand a wider range of products and better services that require personalised financial advice.
- **Convergence of financial services and advance technology**  
The convergence of financial services such as banking, insurance, securities and fund management institutions is blurring the traditional demarcations between the institutions and the products and services they offer. This coupled with advances in technology have resulted in the introduction of more customised and complex products.
- **Expansion of alternative distribution channels**  
Advance technology, competition and cost imperatives are driving the emergence of alternative distribution channels. The insurance industry is exploiting new, cost saving distribution channels such as the internet, bancassurance, direct marketing, telemarketing and independent intermediaries. The emergence of these alternative distribution channels demands greater level of disclosures requirement as consumers need to be made aware of the different risks involved when dealing with these non-traditional channels.
- **Changing business models**  
In the search for business efficiency and effectiveness arising from competition and the resulting increased focus on financial returns, business activities have been transformed from the traditional way they are accustomed to. Insurers are increasingly outsourcing delivery of insurance-related services to third parties, that will have implications on consumers' dealings with insurers.
- **Globalisation and deregulation**  
Forces of globalisation and deregulation have dismantled barriers to foreign competition, as well as easing certain regulations previously imposed on the industry. Competition has intensified as industry players try to gain market shares, and market forces will largely

determine a company's conduct and operation. Consumer education and awareness can play a significant role in promoting better conduct and market discipline.

These emerging trends, coupled with the inherently technical nature of insurance business itself, which is not easily understood by the layman, have created a pressing need for consumer awareness programmes to complement regulation and supervision in the continuing effort to afford effective consumer protection within the industry in the long term. At the same time, the task of protecting consumers' interest is complete only if consumers have access to avenues for redress in the event of disputes with insurers.

### **Role of Consumer Education and Awareness**

Making a right choice in the purchase of an insurance policy is not an easy task. Policy owners face difficulties due to the complex features of products and services offered, as well as the technical jargon used in the literature of insurance contracts and sales illustrations. To this end, educating consumers becomes crucial to enable them to make well-informed decisions in order to find the insurance products that best suit their needs. Other roles of consumer education and awareness are as follows:-

- to promote consumerism where consumers will actively seek information about financial products and services, be more involved in the financial system in an informed way and enabling them to take shared responsibility for their own protection;
- to improve financial literacy among consumers where they can understand the different types of products and services available, compare the benefits as well as the risk of insurance products, understand the common terminology used in the insurance contract and make informed decision in order to find

the insurance products that best suit their needs;

- to promote the development of a more competitive financial services industry where knowledgeable consumers will enable market forces to work effectively and contribute towards market efficiencies;
- to safeguard against the proliferation of increasingly sophisticated insurance scams where consumers can identify and avoid scams, as well as take reasonable initiatives to reduce the risk of falling victims to insurance fraud; and
- to promote confidence among consumers to exercise their rights and address their problems and grievances to the proper channels. Their concerns can be used as market feedback that can contribute towards the improvement of market conduct regulation proper.

Ultimately, consumer education and awareness will provide one of the solutions to effective market discipline and complement the enforcement, compliance and supervisory work of the regulator. In addition, as consumers appreciate the benefits of insurance as a risk management tool, the insurance industry would be able to increase market penetration of the still largely untapped potential of the insurance sector.

### **Current Consumer Issues**

Certain trends can be observed on consumer issues in the industry from data on complaints received from the public against insurers as well as non-insurance multi-level marketing companies. The statistics showed that although complaints on motor insurance account for the largest number of complaints, they are, however, on a declining trend compared with the number of complaints on non-motor business, which are trending upwards. The bulk of the non-motor complaints constitute the newly introduced type of business namely medical and health insurance. The nature of complaints relating to medical and health insurance products include delay in payment of claims, repudiation of liabilities by insurers due

to the failure of policy owners to disclose their health condition at the point of purchase and renewal, rejection of claims due to pre-existing illness, high loading imposed due to the health condition of policy owners. The upward trend of complaints in respect of medical and health insurance products was largely attributed to a lower level of awareness of the insuring public on such new products. In addition, as most medical and health insurance products are distributed through service providers, failure of some of the service providers to provide quality services partly caused the rise in the number of complaints.

The number of complaints received with regard to the conduct of agents in the year 2001 increased further from the previous year. The nature of the complaints include delays in remitting premiums received from policy owners to insurers, misrepresentation of policy benefits and terms and conditions, failure of agents to explain clearly the features of the product sold and details on the terms and conditions of the policy, and pressure selling tactics by inducing clients to purchase policies that are unsuitable to the needs of the clients. These reflect the lack of professionalism on the part of some agents in servicing their customers as well as failure of consumers to exercise their rights under the policy contracts that made them vulnerable to the misconduct of agents. Complaints on repudiation of liability by insurers are also increasing. Analysis showed that in most cases, repudiation of liability was made based on the terms and conditions of the policy. This shows that some policy owners do not know their obligations under the terms and conditions of insurance policy, misunderstand the wording of policy contracts due to its technicality and over expectation of policy owners on what they are entitled to claim.

The above analysis reflects that consumers still lack the basic understanding on insurance matters and this may result in them falling prey to unethical activities committed by industry as well as non-industry players. This calls for the need to pay greater attention for strategies to help educate consumers to safeguard their own interests.

### **Towards Effective Consumer Awareness Strategy**

Over the past few years, there have been continuous efforts to help consumers gain better understanding of insurance and protection of their interest under an insurance policy. Bank Negara Malaysia (BNM) together with Persatuan Insuran Am Malaysia (PIAM) and Life Insurance Association of Malaysia (LIAM), the mandatory associations for general and life insurers respectively, had played a proactive role in educating and protecting interest of the insuring public. The efforts are aimed at covering the interest of the whole spectrum of parties involved. Some of the measures and programmes undertaken are as follows:-

- **Placing high priority on human resources training and development** to develop skilled expertise in the industry. In this connection, BNM imposed a minimum level of training expenditure to be complied with by insurers and brokers, and a minimum level of qualification on adjusters. LIAM in consultation with BNM specified the minimum standards on recruitment and appointment of agents in the Guidelines on Minimum Qualitative Criteria. The industry has also established the Malaysian Institute of Insurance (MII) to conduct training programmes in all aspects of insurance operations as well as taking the role of being the accreditation body for major qualifying examinations for insurance personnel, agents, insurance brokers and adjusters.
- **Setting up websites by PIAM, LIAM and MII** to provide reliable source of insurance information to the public. The websites contain information about general and life insurance, which includes products and services offered by insurers, news release on current developments in the market, education section and guides for consumers.
- **Publishing news and articles in major local newspapers** by PIAM and LIAM to ensure information is widely spread

across the nation. For instance, from July 2001, LIAM started a 6-month campaign to publish articles on life insurance business in major local dailies in Bahasa Melayu, English and Mandarin on a weekly basis. Among the areas covered are topics such as declaration of bonus rate/cash dividend of life policies, insurance claims and role of Insurance Mediation Bureau, and importance of health and medical insurance and annuity/retirement plan.

- **Conducting education programmes for the public.** For instance, LIAM has produced three sets of training CDs on life insurance industry to help the public understand better about life insurance. MII has also conducted specific insurance training courses for consumers to help build up their knowledge about insurance.
- **Programmes by individual insurers** as a value added service to their respective policy owners, which includes fire safety training, risk management advice and customer service hotline.

Moving forward, a more holistic approach to consumer awareness programmes will need to be undertaken. Specifically, there is a need to develop an effective consumer awareness strategy that encompasses:-

- greater coordination and research between BNM, the industry, MII and other consumer advocate bodies;
- higher standards of professionalism particularly among intermediaries with greater accountability for financial advice;
- wider dissemination of education material through a more cost-effective and easily accessible delivery channels; and
- strengthening of dispute resolution mechanisms.

In this connection, BNM in consultation with the industry has outlined in the Financial Sector

Masterplan (FSMP) measures to promote the adoption of best practices. These include:-

- **Introducing best-advice practices.** The introduction of best-advice practices in the marketing of insurance products as a measure to upgrade the quality of advisory services by intermediaries (tied agents, company representatives, brokers, independent financial advisors and financial planners) when selling products to the public. Under the requirement, intermediaries will have to obtain enough information about the prospective client before proposing the appropriate insurance product, and should not sell any product that he knows to be unsuitable for the client. This will help consumers to understand clearly what their needs are and to identify the product or service that best meets their needs.
- **Introducing Independent Financial Advisers (IFAs).** The introduction of IFAs is a strategy to promote the development of alternative distribution channels for insurance product in the country. IFAs are independent intermediaries who market financial products (which may include insurance products, unit trusts, bonds, shares, mortgage loans, etc.) of financial institutions. This is in addition to the traditional agency system that is tied to a specific insurer only. As consumers are able to choose products from a number of companies, the existence of IFAs will increase the level of efficiency within the market. IFAs are likely to offer better quality advice on a variety of financial products as they are envisaged to have relevant experience and qualifications in financial planning. Hence, IFAs are also able to present consumers with a total financial package that best suits their needs.
- **Raising the entry requirement for the agency force,** where pre-contract examinations which individuals must pass to qualify as agents will be reviewed to higher standards as applied in more

developed countries. The higher entry requirement would result in a more qualified agency force that would better serve the customers.

- **Introducing additional compulsory exams as part of continuing education programmes for agents** to ensure that they continuously upgrade their skills and knowledge. This will ensure agents are knowledgeable and equipped with technical ability to take on the role of educating consumers on insurance.
- **Dissemination of more education materials to the insuring public** on various insurance topics to ensure a wider access to insurance education for the public.

The above measures are expected to significantly increase the level of awareness amongst consumers. In addition to these new measures, there is already in existence avenues for consumers to redress disputes and grievances against insurers as follows:-

- **Insurance Mediation Bureau (IMB)** is an alternative channel for policy owners to refer disputes with their insurers. In view of the need to further enhance consumer protection in a deregulated market environment, the role of IMB will be expanded to encompass broader ombudsman functions. These include counselling, advising and adjudicating disputes between policy owner and his insurer or third party insurer. In an effort to improve its services to consumers, IMB is also considering the inclusion of the insurance intermediaries, such as the adjusters, insurance brokers and insurance agents under its purview as they are also involved in the dispute resolution process.
- **Customer Service Bureau (CSB)** is another avenue for consumers to lodge complaints against insurers. The CSB facilitates a proactive approach to address improper and unethical market

practices. The profile of complaints received is both useful to highlight deficiencies in the market conduct as well as an input to further improve the standards of the industry. Apart from that, CSB also deals with consumers' enquiries to provide them with better understanding on insurance matters.

To complement the role of IMB and CSB, all insurers will soon be required to set up their own complaints unit for customers to address their grievances. Insurers are to handle and review complaints with full responsibility, integrity and provide fair resolution with valid justification in solving the disputes. This is to ensure that they are more accountable to complaints received against them as well as to provide opportunity to correct speedily any weaknesses in their conduct. Ultimately, it will foster a high level of professional competence and integrity of insurers in dealings with the public and improve their services to meet international standards.

## Conclusion

Enhancing consumer awareness is a shared responsibility between the regulator, insurance associations, insurers and the public. The ultimate aim of consumer education is to develop an insurance literate community, where consumers understand the benefits and the terms and conditions of insurance contracts, can make well-informed decisions about insurance products and services, and know their rights and how to exercise them. As we move towards a deregulated market, insurers should subscribe to high standard of ethics and moral values to provide good customer service and build customer trust as well as to reinforce good image. As a regulator, BNM's role is to provide the right balance between the interest of consumers and the industry which will be much more challenging given the new market environment. Since no amount of regulation can be full-proof, consumer education will provide the best consumer protection. Ultimately, good ethics by insurers in meeting the needs of well informed consumers will lead to a more progressive insurance industry.