

Consumer Education in Insurance

TOWARDS CORRECT RISK PERCEPTION

ARMAN OZA MENTIONS THAT MASS-MEDIA CAMPAIGNS THAT THROW LIGHT ON THE IMPACT OF VARIOUS RISKS ON THE LIVES OF A FAMILY AS WELL AS THE BASICS OF INSURANCE CONCEPT WILL GO A LONG WAY IN BRINGING THE LAYMAN CONSUMER TO A LEVEL WHERE HE CAN UNDERSTAND HIS NEED VIVIDLY.

Insurance as a risk management tool offers an ex-ante risk transfer option to the consumer in consideration of the premium. Risk transfer decision is largely prompted by the way in which the risk being insured, is perceived by the potential buyer. A risk transfer will take place only if the underlying risk is perceived to be grave enough in comparison to the cost (premium) of transfer. Risk perception again is influenced by a number of factors like risk appetite, level of information, awareness about risk transfer options and credibility of the risk transfer mechanism. Moreover, in order to be able to build a perception, at least a bare understanding about the possibility (probability) of a loss producing event taking place as well as its financial impact (severity), is very much required. Regardless of this, some covert or overt process of identifying and quantifying the risk does take place before a buy decision is made on insurance. Generally speaking, a risk-averse person will buy more insurance than a risk taker. Insurance products usually offer protection against low frequency events only. On the other hand, insurance consumers prefer coverage against more probable, immediate risks, notwithstanding their probable impact. Hence, lower the

frequency of a loss prone event, higher is the perception required to trigger an insurance purchase. All these factors make insurance purchase a much more complex transaction. Building up of the right risk perception in the public psyche is thus fundamental to the emergence of a demand driven, healthy and sustainable insurance market. The whole issue of consumer education in insurance should be viewed from this perspective.

India is a country of highly diverse population mix in terms of social, economic, religious and cultural conditions. These attributes contribute towards equally diverse risk behaviour. A large section of the population is obsessed by a fatalist bias that deters them from being risk-sensitive. Awareness levels about variety and complexity of risks confronting them is relatively low. Financial planning is more often resorted to as an ad-hoc exercise rather than as a habit. All this has resulted in a low overall risk consciousness among the population. Again the risk appetite tends to change in different situations. Thus a person who is averse to stock market risks may become a risk taker while considering life insurance. On the other hand, someone who meticulously buys life and health insurance may become

a risk taker by driving rashly on roads. While a fund of information on insurance "products" is available, fundamental aspects of risk management neither from

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The benefits from insurance, being distant as well as contingent, always remain under a cloud of suspicion for the masses.

the consumers. Unlike other products or services, the benefits of insurance are not immediately felt and hence unless the consumer is fully convinced about buying insurance per se, it will be very difficult to ensure continued purchase. Insurance is a long term business for insurers as well as intermediaries. Unless the concept is sold in the right earnest, issues like adverse selection and moral hazard will keep bothering the industry and a sustainable as well as profitable portfolio of risks will never emerge. In this context the role of supply side in educating the customer becomes critical. Unfortunately very little effort has gone in on this front - both at the micro as well as macro levels. Substantial investment is being made in peripheral marketing activities like celebrity endorsements and brand building that hardly convey any fundamental message to the consumer. At the same time, precious little is being done. To offer right inputs and tools on the concept to the customer at the point of sale is also a rare sight.

At the micro level, point of sale is an ideal occasion for imparting consumer education since the consumer is fully attentive at this point. Intermediaries and salespersons need to be trained in an effective manner to achieve this end. Rather than mere product detailing they should be assessing the risk appetite of the insured and suggesting products accordingly. Even while detailing the product, rather than just painting a rosy picture about the coverage and services offered, it will be in the interest of everybody to explain the limitations (or exclusions) of the product and also explain the precept underlying these limitations. For example, instead of just saying that outpatient treatment is excluded in a health insurance policy, it would be helpful to explain that insurance as a mechanism cannot cover high

frequency risks, or that such risks are best to retain rather than transfer. A well informed consumer would bear a bigger business potential and should not be considered a threat.

The supply side needs to understand that insurance selling is much more than pushing a product in the market or more crudely just 'closing a deal.' Insurance caters to only one area of the risk quadrant and in order to optimize the benefits of insurance, the consumer needs to understand risk handling techniques for non-insurable risks as well. In other words apart from transferring the risks, an individual has to learn about retaining, controlling as well as avoiding certain risks. Only then the benefits will flow in a perceptible manner. Being a vital player of the game, an insurance salesperson should be giving vital tips on these areas as well. Enabling the customer in taking informed decisions is not only a matter of ethics but also makes better business sense. A customer with the right risk perception is always likely to buy more insurance and more importantly continue buying insurance over a period of time. Customer dissonance, which is a major issue in insurance, arises mostly because of lack of proper clarity (if not mis-selling) at the point of sale. Utmost good faith is a reciprocal obligation. Just as we expect the consumer to take a long term view on insurance, intermediaries and insurers also need to go beyond short term goals of bracing big volumes quickly.

The efforts to convey the right message at the micro level also need to be complemented at the macro level. Again the focus has to be on building the right risk perception rather than merely parroting words like "insurance", "security" and "guarantee". Well designed mass-media campaigns that throw light on the impact of various risks on the lives of a family as

well as the basics of insurance concept will go a long way in bringing the layman consumer to a level where he can understand his need vividly. Rather than being sporadic in nature these campaigns have to be carried out for long periods and preferably in a phased manner. Separate strategies for rural and urban consumers have to be devised. Media like television and internet can be extensively used in this

regard. Cues can be taken from social marketing campaigns like "pulse polio". In the recent past, many insurance schemes have been launched by the government. The Rashtriya Swasthya Bima Yojna (RSBY) is one such example. Insurance awareness campaigns can be clubbed with such schemes to ensure better outreach as well as increased risk consciousness among the population. As a nation, the returns generated by such campaigns in terms of increased insurance penetration will be much more than the costs involved.

The concept of risk and risk management and thereby insurance, needs to be the part of school curriculum right from the primary school level. As of now, insurance is not taught even at the post-graduate level in the management discipline by most universities. This is the major reason why even educated people fail to comprehend the concept fully. Introducing suitably drafted curricula at the school level will at least ensure that the upcoming generation understands the importance of risk management through insurance in the right earnest. To start with insurance companies can be encouraged to approach schools and colleges for short duration lectures and presentations explaining the basics of insurance. Long back, a similar effort was made by Petroleum Conservation and Research Association whereby the PSU oil companies were encouraged to organize lectures in schools on the importance of petroleum conservation.

Appropriate regulations are already in

place for ensuring that the consumer gets a fair deal. Consumer education however, is not an issue that can be dealt with through regulation alone. Neither is it something that can be taken up as a project and finished once for all. It calls for a mature behaviour and affirmative action on the part of the industry. It has to become a part of the culture that is driven by a conviction that a risk literate consumer is in the interest of one and all in the industry. Fair play is not a one way process - neither is foul play.

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