

# Diagnosis of the Korean Insurance Industry and Its Suggestions (III) – Consumer-centric Management

KIRI presents the CEO Brief series, “Diagnosis of the Korean Insurance Industry and Its Suggestions”

## ABSTRACT

Despite efforts by insurers to improve consumer protection, these efforts fall short of consumer expectations. To reduce the gap, insurers should improve sales practices, claim payment services, and consumers’ insurance capability. First, it is necessary for insurers to review and rectify insurance intermediaries’ remuneration scheme, which can raise conflicts of interest with consumers, and to promote responsible and ethical sales practices. Second, insurers need to simplify insurance products, improve consistency and transparency in claim management, and strengthen compliance control over external claim management services. Third, insurers should develop innovative ways to capture consumers’ attention and to help consumers understand the products better using ICT.

## 1. Diagnosis of the Insurance Industry

Despite insurers’ efforts to improve consumer protection, these efforts fall short of consumer expectations. The cause of the gap can be found during selling insurance products and claim payment, and consumers’ insurance literacy. In particular, since consumers interact the most with insurers when they buy insurance products and file insurance claims, those are crucial moments to determine the level of consumers’ satisfaction and trust towards their insurers.

First, remuneration schemes of insurance intermediaries for quantitative growth and business culture allowing unhealthy sales practices lead to misselling and churning. Consumers who experience these practices can have distrust not only in the salesperson

but also in the insurer. For example, looking at the misselling ratios by life insurance sales channel, the ratio was highest in the GAs, which are known to have the highest sales commission and up-fronting remuneration practices (as of 2019). Also, some salespersons explained whole life insurance policies with annuity conversion rider to consumers as savings-type products to earn higher commissions, and it led to many complaints.

Second, payment refusal or delay causes consumer complaints and disputes; however, the root cause of the complaints could be a lack of consistency or transparency in payment decisions rather than the refusal or delayed itself. Currently, the improvement of the claim management process is ongoing led by the financial authority. However, there are still some warning cases, where the reduction in the amount of claim payment is reflected in the performance evaluation of the claims professionals.

Third, if consumers do not understand or get enough information about the insurance product and coverage they are purchasing, they are more likely to be exposed to misselling or could not get the coverage that they expected.

## 2. Suggestions for the Insurance Industry

First, it is necessary for insurers to review and rectify insurance intermediaries' remuneration scheme, which can raise conflicts of interest with consumers, and to promote responsible and ethical sales practices. Humans tend to easily justify and disperse wrongdoing if they think their group members behave dishonestly. To prevent this, the current culture of business conduct should be radically reformed. Especially, as the influence of external distribution channels, which are not familiar with financial regulations, is expanding, supervision in the business conduct should move towards imposing the responsibility of sales on external distribution channels as well as insurers.

Second, insurers need to simplify insurance products to prevent unnecessary misunderstandings and disputes. Also, they should improve consistency and transparency in claim management and strengthen compliance control over external claim management services. Even though insurance services are carried out by sales

professionals and claims professionals in the field, compliance control over the claim payment process is relatively insufficient compared to the sales process.

Third, insurers should develop innovative ways to capture consumers' attention and to help consumers' understand the products using ICT. Moreover, they could provide services to nudge a consumer when a claimable event occurs or to explain the coverage of her current insurance policy using the MyData scheme. Insurers must help financial consumers fulfill their responsibilities to select financial products properly and to try to acquire financial knowledge and information (Article 8, Financial Consumer Protection Act).

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