

Conduct of Business Risks – Consumer Perspective
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IAIS Market Conduct Subcommittee

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1. Low-Value Products Targeted at Low-Income Consumers
 - a. Measurement of Value of Insurance Product to Consumers – Benefit Ratio or Loss Ratio

2. Credit-Related Insurance Products
 - a. Abuses of consumer credit insurance / ppi show up all over the globe
 - b. Reverse Competition – kickbacks to lender, low benefits to borrower
 - c. Massive profitability creates incentives for abusive sales and claims settlement practices (post-claims underwriting).
 - d. Debt Cancellation Replacement for Payment Protection Insurance/Consumer Credit Insurance
 - e. Mortgage Insurance
 - f. Numerous studies at CEJ web site: www.cej-online.org

3. Disclosures to Empower Consumers, Not a Liability Shield for Insurers; Best Practices for Consumer Disclosures
 - a. Market Analysis to determine if disclosure can address a market problem and empower consumer
 - b. Timing and method of presentation of disclosure as important as content
 - c. Testing of disclosures prior to use
 - d. Insights from behavioral economics
 - e. Testing of outcomes after disclosures in use
 - f. US examples:
 - i. Insurance Department Rate Comparison Tables -- Ineffective
 - ii. Shopping Guides -- Ineffective
 - iii. Policy Comparison Tool – Effective (Attachment – Texas Office of Public Insurance Counsel

4. Producer Compensation Schemes Not Aligned with Interest of Consumers
 - a. Incentives to churn or replace policies; sell unsuitable products; push one product over others regardless of consumer needs
 - b. US Example: auto/property agent compensation vs. life/annuity compensation
 - c. US Example: contingent compensation based on sales volume, loss ratios
 - d. At a minimum, transparency of compensation; prohibitions on certain compensation schemes

5. Risk Classifications and Fair Treatment of Consumers
 - a. Unfair rating factors – “price optimization” (price elasticity of demand), socio-economic characteristics, credit score;
 - b. Factors reflecting and perpetuating historic discrimination: disparate impact
 - c. Rating factors that undermine loss mitigation role of insurance
 - d. Rating factors from data mining into a black box scoring model
 - e. Transparency and limitations on risk classifications to promote loss mitigation

6. Protection of Consumer Data and Privacy
 - a. Telematics
 - b. Loss Databases
 - c. Fraud Databases

7. Overly Complex Retirement Income Products
 - a. Insuring market risk vs. mortality risk
 - b. Consumer inability to evaluate overall value of product – benefit ratio
 - c. Fee Harvesting by insurers vs. product value to consumers
 - d. Long-term investment by consumer; surprise policy provisions years later and too late for alternative investment.

8. Systemically-Risky Retirement Income Products – Contingent Deferred Annuities

9. Publication of Data of Insurer Market Performance – typically packaged by consumer organizations / academics to develop comprehensible metrics for consumers
 - a. Revenues, Expenses, Benefit (Loss Ratios)
 - b. Location of Sales by Product and Price
 - c. Consumer Complaints by product and product life cycle stages
 - d. Claim Settlement Metrics – claims denied / days to claim payment by product and location