



Financial Services Authority

General Insurance Telephone Sales

Results of thematic work

Examples of good
and poor practice

April 2007

Background

- This report reviews the results of work which examined whether firms had sales processes and systems and controls in place to ensure they were treating customers fairly when selling general insurance products over the telephone.
- The project, which began in the third quarter of 2006, covered 43 firms of different sizes and business models including direct insurers and brokers and covered 32 types of general insurance contract.
- All 43 firms completed a questionnaire, the FSA listened to over 260 calls from 19 firms and visited 10 firms looking at 11 different types of insurance.
- This report includes quotes taken directly from call recordings we have listened to. They have been selected to highlight aspects of good and poor practice.
- We did not include payment protection insurance (PPI) sales within the scope of this work (except when sold as an add-on to other insurance policies) because of the other FSA thematic work that has taken place in this area.

Summary

- The overall quality of sales where the customer called the firm was generally acceptable.
- In our sample there was little or no disclosure of significant exclusions and limitations in 36% of all inbound and outbound (or cold-calling) calls, which is contrary to the ICOB rules. In inbound calls, the detriment to consumers as a result is likely to be limited as customers are more aware of what they are buying. This was similar across different firms (large and small; brokers and insurers) and the 11 types of insurance we looked at in the second stage of the project.
- We considered cold-calling sales in relation to the sale of personal accident insurance, health cash plans and accident and sickness insurance. The overall quality of sales where the customer was cold-called by the firm was unacceptably low.
- There were common system and controls weaknesses in the oversight of supervisors and team leaders in all inbound and outbound call centres. There is a risk that unless firms have the appropriate systems and controls they will find it difficult to treat their customers fairly.
- Free periods were frequently offered by firms cold-calling customers, and were often inappropriately used as a mitigant for poor disclosure. Firms did not explain the product clearly enough to customers and instead told them to read the available literature and then cancel the product if they wanted. This is not sufficient as evidence suggests customers are very reliant on what they are told and do not read all the available literature. There was also a strong tendency to pressurise the customer into buying the product, often because it was free for a limited period.
- Many issues identified with cold-calling had previously been identified in earlier FSA thematic work on PPI.
- Firms of all sizes and in all sectors were still confusing customer satisfaction and treating customers fairly (TCF) in their general insurance telephone sales business. Some senior management in call centres focussed exclusively on customer satisfaction data rather than any wider TCF Management Information (MI).

Quality of calls (1)

Inbound calls – good practice

- When selling health cash plans firms sent out policy documents for customers to read before asking them to sign up to the policy. They then contacted the customer again after giving them time to read the documents.
- Sales staff gave the customer plenty of opportunities to ask questions and checked the customer's understanding through the course of the conversation when selling private medical insurance.
- Sales staff explained the different levels of cover available and the different benefits and price of each type of pet insurance policy.

Inbound calls – poor practice

- Firms selling home and motor insurance did not give enough disclosure about add-ons such as legal expenses cover and PPI. It was not made clear when legal expenses cover was optional on both home and motor insurance and they gave no information about the details of the PPI policy sold alongside motor insurance.
- Some firms did not always give enough details of the significant exclusions and limitations. For example, customers were sold travel insurance policies and were not told that they may not be covered for pre-existing medical conditions.

Firm: I can start the application now if you would like me to or I can put the information in the post and you can give us a call at your convenience, it's up to you.

(Firm giving a customer ample opportunity to review the policy information and make an informed decision)

Quality of calls (2)

Cold-calling – good practice

- One firm had decided it could offer a better service to customers when selling health cash plans if it gave advice. So it considered phasing out its non-advised sales as it was concerned with the high cancellation rates and lower levels of customer satisfaction from the non-advised call centres.

Cold-calling – poor practice

- Sales staff were not clear on the qualifying periods for health cash plans.
- Customers were told personal accident insurance was a suitable substitute for travel insurance as it gave world-wide cover when in fact they were only covered for accidents when abroad, not the wider cover provided by travel insurance (such as medical treatment, cancellation and lost baggage).
- Firms gave customers the exclusions after they signed up for the policy when selling accident and sickness insurance which meant the customer was not aware of what they were buying when they made the decision to purchase the insurance.
- Where annual health cash plan policies were sold the total cost of the policy was not given. A monthly, weekly or daily cost was given instead to make the policy sound less expensive, when the annual price should have been given under ICOB rules.
- Customers were pressured into agreeing to sign up for the policy during the call, despite frequent objections, when they were sold personal accident insurance.
- Many firms that cold-called customers were refusing to send out policy documents for the customer to read before signing up for the policy.
- Sales staff were not being clear that they were selling an insurance product when selling health cash plans and in some cases denied that it was insurance.
- Sales staff were not being clear that they were signing up a customer for a policy rather than just sending out an information pack when selling personal accident insurance.

Firm: "Can I take your bank details just to see if your bank will accept Direct Debits from us?"

(A firm selling through cold calling taking payment details from a customer but not being clear that a direct debit to pay for the insurance would be set up)

Systems and Controls

Good practice

- Some firms checked a random number of calls for each sales person each month, so sales staff were not aware when their monitoring for the month had been completed.
- Most firms employed a risk-based system for determining the number of calls monitored, with increased monitoring for new staff and those with poor compliance records.
- Some firms that sold through outbound call centres chose to monitor and check every sale made, although we had concerns over the quality of the checks being made.

Firm: "If you take this cover you won't need to fork out and get travel insurance which can be quite expensive each time because you'll be covered abroad anyway"

(On the sale of personal accident insurance)

Poor practice

- There were significant weaknesses in the monitoring and oversight of supervisors and team leaders within call centres across all sectors. Half the firms we visited had no effective oversight of these staff, meaning that in some call centres very poor quality calls were being passed as compliant, particularly in outbound, third party call centres.
- Small firms lacked documented procedures and processes which meant as new staff joined and firms grew there was not a clear understanding of the firm's systems and controls.
- In some firms call monitoring was limited and there was no room for call monitoring staff to give feedback about the feel or tone of the call.

Systems and Controls – Outsourcing

Many firms selling insurance over the telephone outsource the sales functions to a third party call centre specialist firm. It is essential that customers are treated fairly regardless of whether the firm uses in-house or outsourced call centres.

Good practice

- Staff were clear whose products they were selling and made it very clear to the customer the identity of the insurer in question.
- Firms kept in very close contact with their third-party call centre operators, although at times this contact had an almost exclusive focus on sales and call volumes.

Firm: Your premium is £254, which includes motor legal expenses cover

(Firm not making clear when motor legal expenses cover is optional)

Poor practice

- We visited a number of third-party call centres that were authorised by the FSA in their own right. They generally sold products through cold-calling. These firms had little understanding of their obligations as an authorised firm; they were very reliant on the firm whose products they were selling for scripts, sales processes and systems and controls.
- There was a lack of clarity about who was responsible for TCF when selling products on an outbound basis through third-party call centres. This meant there was little focus on TCF when dealing with customers at third-party call centres. All authorised firms have a responsibility for TCF, however where firms set up these arrangements they must be clear among themselves as to where responsibility lies.

Training and Competence

Good practice

- Where firms used in-house call centres they generally offered longer, more detailed training programmes to new starters, with more supervision once they were on the telephone. Many firms placed new starters in a ‘team environment’ that had increased support and intensive supervision for the first few weeks.
- Most firms held regular one-to-ones between sales staff and their team leaders where call quality was discussed, although the focus on sales technique and treatment of customers varied between firms.
- Most firms used some form of in-house testing to ensure that staff understood the training courses they attended.
- In-house call centres had lower staff turnover and were less likely to use temporary staff than third party call centres. They offered more ongoing, higher quality training on a wider range of issues to staff. This meant the telesales staff working in in-house call centres generally had more knowledge and experience than those in third-party call centres.

Firm: “Because we are governed by the FSA I have to ask you for your account number and sort code in case you make a claim because you will be covered, just so that we can pay you if God forbid that happens”

(Getting the customer’s bank details to set up a direct debit in a cold call, and not being honest about why the firm needs the bank details)

Poor practice

- Generally outbound third-party call centres had very short training programmes for new starters with little additional supervision once they began selling.
- Outbound selling firms were more likely to discipline or reprimand staff for poor sales performance than poor compliance performance.
- Insurers were generally heavily involved in the training for third-party call centre staff at the beginning of a campaign. But they had little involvement in the training of new starters selling their products during the course of a campaign, despite the relatively high level of turnover of staff.
- Small firms generally provided less in the way of formal ongoing training, and were far less likely to document training that had taken place.

Remuneration of sales staff

Good practice

- In many firms, commission was not solely related to sales, but quality standards also had to be met, otherwise all commission for a period would be withheld.
- A specialist broker paid a flat commission to staff regardless of which product they recommended and did not use further insurer incentives that were available so as not to encourage provider bias within their sales.

Firm: "We are not signing you up today, just enrolling you in a free trial."

(Firm signing a customer up for an insurance policy, but using the free trial as a pretence to the customer that they are not yet signed up to the policy)

Poor practice

- There was a clear correlation between the most aggressive commission structures and the most aggressive sales practices. Some insurers using third party call centres to cold call customers allowed their call centres to set their own remuneration strategies, which were highly aggressive, and went against the insurer's own TCF policies. There was no desire to challenge these remuneration strategies by the firm using the third-party call centre.
- Some inbound firms paid disproportionately large bonuses to staff if they hit their annual target early in the year.
- Some outbound firms did not clawback commission from sales staff if the policy had been cancelled, even though the firms may have very high cancellation rates. The lack of clawback may not give the right incentives to staff to sell policies that customers will be happy with in the long term.

Customer: "Is it insurance?"

Firm: "No, no. It's not insurance. It's just a health cashback plan."

(Firm not being clear a customer that the customer is buying an insurance policy in a cold call)

Conclusion and way forward

- Overall the quality of inbound sales of general insurance over the telephone is generally acceptable. However, all firms need to review their scripts to ensure they are disclosing enough information about the exclusions and limitations of their policy.
- In the small number of firms that were cold calling, we found the quality of calls we listened to was unacceptably low. Firms who use this sales model need to consider carefully how they are ensuring they are treating their customers fairly.
- Where there are a number of firms involved in the customer relationship, such as an insurer and a third-party call centre, all firms need to consider carefully their obligations to ensure that they treat their customers fairly.¹
- Going forward we will be targeting our supervisory work with firms to ensure their cold calling operations are meeting the standards we expect.

¹ For further information on TCF for product providers and distributor see DP06/4 http://www.fsa.gov.uk/pubs/discussion/dp06_04.pdf.



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