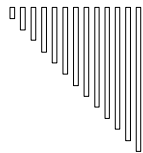


Tips and Tools for Consumer Friendly Disclosures

Brenda J. Cude, Professor, University of Georgia
NAIC Consumer Representative
bcude@uga.edu

Insurance Consumer Affairs Exchange,
September 2008

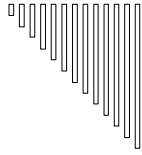


Consumers Encounter Twists and Turns in Insurance

- As their lives change
- As the ways they buy insurance changes
- As the insurance market changes
- As the rules that define what's "fair" in insurance transactions change



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How Prepared Are We As Consumers?

- 40 to 44 million adults lack the reading and writing skills to meet daily demands
 - Over one-half of adult population has literacy skills below sixth grade (National Adult Literacy Survey, 1992)
- English is the second language for 11 million adults

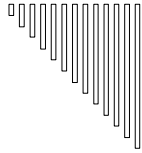


What Do Adults Do When They Don't Understand?

Adkins and Ozanne (2005) found different responses among low literacy consumers:

- Restrict and minimize interaction to avoid negative evaluations
- Cope by memorizing
- Use visual information
- Pay cash only
- Deceive others (I forgot my glasses) to get them to help
- Fake it with confidence





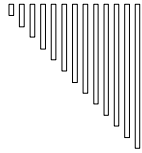
Is the Answer Improved Financial Literacy?

- President's Advisory Council on
Financial Literacy
- U.S. Department of Treasury Office of
Financial Education



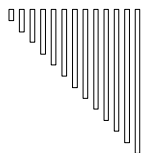
Is Literacy THE Answer?

- Consumers are operating in the most
dynamic and complex financial market
ever known.
- And, in most cases, we are using
disclosures designed 30 years ago or
more when markets, products, and ways
of delivering information were very
different.



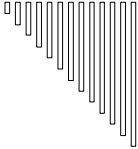
Dissatisfaction With the Status Quo is Growing

- 55% of health plan members don't fully understand critical details of their insurance coverage (J.D. Power Associates, 2008)



Dissatisfaction With the Status Quo is Growing

- Mortgage disclosure forms fail to convey key mortgage costs and terms to many consumers (FTC, 2007)
- A significant interagency effort to redesign required consumer financial privacy notices so that they are "easier for consumers to understand and use" (FTC, ongoing)



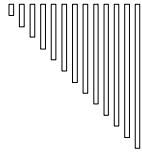
Dissatisfaction With the Status Quo is Growing

- “Increased Complexity in Rates and Fees Heightens Need for More Effective Credit Card Disclosures to Consumers” (GAO, 2006)
- “Federal Banking Regulators Could Ensure That Consumers Have Required Disclosure Documents Prior to Opening Checking or Savings Accounts” (GAO, 2008)



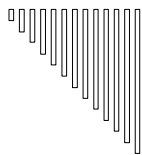
With Information...

- Consumers can make better choices about the tradeoffs between cost and product features.
- IF this is in a competitive market where consumers have real choice, consumer disclosures can..
 - Facilitate competition by addressing the asymmetric information situation.
 - Make the most aggressive players in the market more reluctant to practice fraud and deception.



Disclosures to Consumers Can Be Useful When

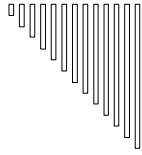
- Information is available at the “right” time.
- Consumers can use information to avoid problems.



How Do We Assess Readability?

- Flesch Reading Ease Score
- Flesch Kincaid Grade Level
- Frequency of Gobbledygook (FOG Index)
- All are calculated using sentence length and syllables per word*





How to Assess Readability

□ Flesch Reading Ease Score

- **A number from 0 to 100, with a higher score indicating easier reading.**

- **The formula reads as follows:**

- $206.835 - (1.015 \times \text{ASL}) - (84.6 \times \text{ASW})$

- where:

- ASL = average sentence length (the number of words divided by the number of sentences)

- ASW = average number of syllables per word (the number of syllables divided by the number of words)

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How to Assess Readability

□ Flesch-Kincaid Grade Level

- **Converts the Reading Ease Score to a U.S. grade-school level**

- $(.39 \times \text{ASL}) + (11.8 \times \text{ASW}) - 15.59$

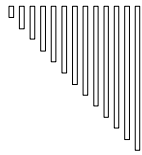
- where:

- ASL = average sentence length (the number of words divided by the number of sentences)

- ASW = average number of syllables per word (the number of syllables divided by the number of words)

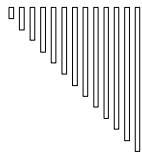
- **Microsoft Word will produce both**

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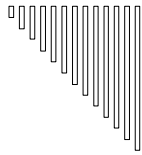
The Cloze Test

- The Cloze Test deletes every fifth word, and the reader is asked to fill in the blanks.
- The reader should be able to fill in the blanks based on the rest of the sentence if the information is well written. If it isn't and the reader doesn't understand, he won't be able to fill in the blanks



The Cloze Test

- 60%-100% correct: Well written
- 40-49% correct: Should be rewritten to make it more understandable
- 0-39%: Not suitable for consumers and should be completely rewritten



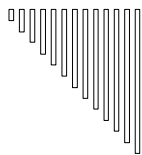
Try Out the Cloze Test

Life & Annuity Replacement Disclosure

IMPORTANT NOTICE:

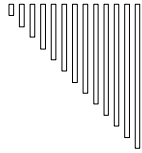
REPLACEMENT OF LIFE INSURANCE OR ANNUITIES

A replacement occurs when _____ new policy or contract _____ purchased and, in connection _____ the sale, you discontinue _____ premium payments on the _____ policy or contract, or _____ existing policy or contract _____ surrendered, forfeited, assigned to _____ replacing insurer, or otherwise _____ or used in a _____ purchase.



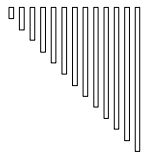
From A Fixed and Equity Index Annuity Disclosure

Fixed and Equity Index _____ usually have limitations on _____ amount of funds that _____ be withdrawn without a _____. You should consider the _____ on amounts that may _____ withdrawn free of surrender _____ (typically 10% of your _____ value per year or _____ interest earned) before you _____, and you should have _____ liquid sources of funds.



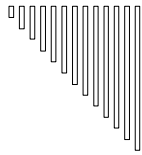
For A Viatical Settlement

All medical, financial or _____ information solicited or obtained _____ a viatical settlement provider _____ viatical settlement broker about _____ insured, including the insured's _____ or the identity of _____ members, a spouse or _____ significant other may be _____ as necessary to effect _____ viatical settlement between the _____ and the viatical settlement _____. If you are asked _____ provide this information, you _____ be asked to consent _____ the disclosure. The information _____ be provided to someone _____ buys the policy or _____ funds for the purchase. _____ may be asked to _____ your permission to share _____ every two years.



Plain Language "Rules" Summarized

- Write for the average reader
- Organize to meet the reader's needs
- Use headings; make headings useful
 - Every page should have at least one heading -
- and most should have more
- "Chunk" the information
 - Use columns, headings, and/or bullets to
create more white space
- Use lists and tables to simplify information



What are “Common, Everyday Words”?

- Words and phrases your average reader is familiar with and likely to prefer over legalistic or bureaucratic terms

Compare this:

When the process of freeing a vehicle that has been stuck results in ruts or holes, the operator will fill the rut or hole created by such activity before removing the vehicle from the immediate area.

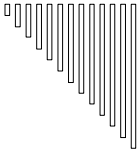
To this:

If you make a hole while freeing a stuck vehicle, you must fill the hole before you drive away.



Plain Language “Rules” Summarized

- Use “you” and other pronouns
- Use active voice
- Use short sentences and short sections
- Use the simplest tense possible
- Omit all excess words
- Use concrete familiar words
- Use “must” to express requirements; avoid the ambiguous word “shall”
- Place words carefully

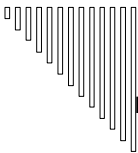


Use Active Voice

- Using active voice clarifies who is doing what; passive obscures it
- Active voice is generally shorter, as well as clearer; changing our writing to prefer active voice is the single most powerful change we can make in government writing
- Active sentences are structured with the actor first (as the subject), then the verb, then the object of the action

Passive	Active
The lake was polluted by the company.	The company polluted the lake.
The following information must be included in the application for it be considered complete.	You must include the following information in your complete application.

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Length of Sentences

- Sentences should average 15–20 words, and never be longer than 40 words; cut out unnecessary words

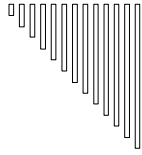
Compare this:

The Secretary of the Interior may, in specific cases or in specific geographic areas, adopt or make applicable to off-reservation Indian lands all or any part of such laws, ordinances, codes, resolutions, rules or other regulations of the State and political subdivisions in which the land is located as the Secretary shall determine to be in the best interest of the Indian owner or owners in achieving the highest and best use of such property.

To this:

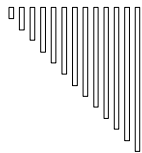
We may apply State or local laws to off-reservation lands. We will do this only if it will help the Indian owners make the best use of their lands.

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A Note About Fonts

- Which of these is 28 point?
- For example (Arial)
- For example (Bookman Old Style)
- For example (Arial Narrow)
- For example (TW Cen MT Condensed)
- For example (Gil Sans MT Condensed)
- For example (Bodoni MT)



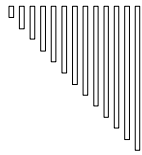
Models to Follow for Development of Disclosures

*American Council
of Life Insurers*

Federal Trade Commission

**Consumers
Union®**

NAIC
making progress . . . together



People Read Differently Online:

- People skim and scan.
- They want to find information quickly and read only to answer questions.
 - Break documents into separate topics.
 - Compared to paper documents, use even shorter paragraphs, more lists, and more headings (questions are great), and less white space.
 - Keep information to no more than two levels on a page.

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Source: *Writing in Plain Language* on the TRICARE Web Site

What's A "Consumer Friendly" Web Page?

- "Friendliness" is in the eye of the beholder!
 - Readability
 - Function
 - Credibility
 - Usability
 - Compliance with requirements for disabled users

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Functions Insurance Consumers Expect

- A typology of insurance consumers
 - Consumers seeking information before a purchase
 - Consumers seeking general information about insurance products and regulation
 - Consumer advocates seeking information about insurance companies/agents
 - Complaining consumers

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Evaluating Web Pages for Consumers

- Information content
 - Before the purchase
 - Information about product/producer/service
 - How to evaluate options
 - Legal rights and responsibilities
 - After the purchase
 - How to use the product/deal with producer
 - How to solve problems
 - Legal rights and responsibilities

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Information Content

- On your site or by linking to another site?
- Do insurance consumers need or want company/product/state specific information?
- In what format (print, interactive, video, etc.)?

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Information Content

- Buying decisions information
 - Help finding an insurer and/or an agent
 - Premium information
 - Interactive or static?
 - For what lines of insurance?
 - Within lines for whom?
 - Complaint ratio data/Customer satisfaction data
 - Consumer role of insurance department/customer service/claims handling

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Online Transactions

- Online requests for information
- Online transactions
 - Purchases, complaints
- Online resources
 - Calculators, Specialized online tools

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What Makes A Website Credible?

- Advertising on site
- Organization's motive
- Site's look and visual appeal
- Accuracy of information
- Bias in information on the site
- How information is
- Quantity of information on the site
- Information sources identified
- Name recognition or reputation of site operators/partners
- Tone or attitude conveyed by site's content

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Insurance Consumers' Expectations

- **Credibility**
 - Make it easy to verify information is accurate
 - Highlight expertise
 - Make it easy to contact you
 - Use a professional design
 - Build an easy to use and useful site
 - Update content often (and show dates)
 - Avoid errors of all types

Source: Stanford Web Credibility Research

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Insurance Consumers' Expectations

- **Usability**
 - Provide useful content (1:1)
 - Understand and meet user's expectations (1:3)
 - Set and state goals (1:5)

Source: Usability.gov

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Insurance Consumers' Expectations

- Usability
 - Enable access to the homepage (5:1)
 - Show all major options on the homepage (5:2)
 - Create a positive first impression of your site (5:3)
 - Place important items consistently (6:2) (top center – 6.3)

Source: Usability.gov

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Insurance Consumers' Expectations

- Usability
 - Eliminate horizontal scrolling (8:1)
 - Use clear category labels (9:1)
 - Use meaningful link labels (10:1)
 - Distinguish required and optional data entry fields (13:1)
 - Detect errors automatically (13:2)

Source: Usability.gov

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Insurance Consumers' Expectations

- Usability
 - Organize information clearly (16:1)
 - Facilitate scanning (16:2)
 - Ensure that necessary information is displayed (16:3)
 - Ensure usable search results (17:1)
 - Design search engines to search the entire site (17:2)

Source: Usability.gov

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September 2008



Resources

- American Council of Life Insurers. Annuity Disclosure Improvement Initiative.
- Consumers Union. *Model Health Insurance Information*.
http://www.consumersunion.org/pdf/cost_coverage_benefits.pdf
- Federal Trade Commission. *Evolution of a Prototype Financial Privacy Notice: A Report on the Form Development Project*. 2006.
<http://www.ftc.gov/opa/2006/03/jointprprivadcy.shtm>
- Cude, B.J. (2005). Insurance disclosures: An effective mechanism to increase consumers' insurance market power? *Journal of Insurance Regulation*, 24(2), 57-80.

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Resources

- *Readability Formulas*. Coh-Metrix, University of Memphis Department of Psychology at <http://csep.psyc.memphis.edu/cohmetrix/readabilityresearch.htm> or Readability Info at <http://www.readability.info>
- Hochhauser, M. (2001-2005). *Take the Cloze Test: Readability of a Financial Privacy Policy*. Privacy Rights Clearinghouse. <http://www.privacyrights.org/fs/fs24b-ClozeFinancial.htm>
- *Simple Words and Phases*. http://www.faa.gov/documentlibrary/media/order/branding_writing/order1000_36.pdf
- *Legal Examples* (one of many resources at PlainLanguage.gov). <http://www.plainlanguage.gov/examples/legal/index.cfm>

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Resources

- Adkins, N.R., & Ozanne, J.L. (2005, June). The low literate consumer. *Journal of Consumer Research*, 12, 93-105.
- *Literacy in Everyday Life: Results from the 2003 National Assessment of Adult Literacy*. <http://nces.ed.gov/pubsearch/pubsinfo.asp?pubid=2007480>
- www.plainlanguage.gov
- *Standord Web Credibility Research*. <http://credibility.stanford.edu/>
- www.usability.gov

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Make YOUR Disclosures More Readable

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