



Wrocław University
of Economics

Faculty of Management, Computer Science and Finance

PhD Thesis Summary

Readability of the General Insurance Terms and
Conditions – theory and application in insurance
practice

by

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1. Introduction

Reading comprehension, fast reading techniques or ways to increase the absorption and memorization of a large amount of information are useful skills at every stage of our life. Especially in the present times, when everywhere we are overwhelmed with a huge amount of data from various sources, in the crowd of which it is easy to get lost. On the other hand there are ubiquitous restrictions, i.e. in the available space, file size, or the number of words per page that determine the shape of the document being created or delivered message. All this leads to the creation of difficult and complex texts, couched in the specialist vocabulary that are incomprehensible to the average citizen. This shows how important element of our everyday life is readability, at the same time opening up a wide field for research on the readability and methods of measuring the affordability of texts intended for a mass audience.

Reading comprehension helps in determining the range of the given text and its effectiveness, with which it affects the recipient. Readability and studying the degree of text difficulty are in the interest of many contemporary researchers. In addition, in the author's opinion, in the age of miniaturization, simplification of components of our everyday life, portability, the simplification trend should also apply to consumer contracts (including insurance contracts), degree of readability of which leaves much to be desired. Customers concluding insurance contract are often asked to fill out a lot of relevant information and sign a stack of paper that becomes binding after the agreement has been signed. This is confirmed by alarming statistics: only 27% of consumers are struggling to read the contract before signing, of which 1/5 declare that they do not understand its provisions. One of the factors discouraging consumers to read the full contents of insurance contracts (except for the lack of time, their length or small font) is the incomprehensible language they are written.

Over the years, many social movements for simple communication with consumers have been created. The most popular is Plain English Campaign, which was started in Great Britain in the 1970s. Currently, most developed countries found a solutions based on the standards of a plain, simple language, which guarantee a clear message and readable text. So far, the only Polish accent in creating standards of simple Polish language is the activity of the Simple Polish Language Office at the University of Wrocław (Pracownia Prostej Polszczyzny przy Uniwersytecie Wrocławskim).

The rules of a simple language and clear communication are a set of guidelines for authors to be followed so that the text would be better perceived by the recipients. While composing a text intended for consumers, need to bear in mind:

- building short sentences composed of words up to 3 syllables and commonly known,
- avoiding eurojargon, archaisms, abstract and foreign words,
- the use of headings (subheadings) serving as summaries and containing the main idea of the following texts,
- avoiding impersonal forms, passive voice, adjustable formation or verbal nouns,
- writing text for the recipient using a less formalized style,
- reasonable layout of the text (not crowding too much information on one page),
- using a clear, large font, numbered or bulleted lists,
- adherence to the rules of punctuation and spelling.

2. Justification for the choice of the research area

In the author's opinion, the concept of doctoral thesis is related to the current research problem and significant from the point of view of both the consumer and insurance companies. Increased activities of supervisory authorities (KNF – Polish Financial Supervision Authority), or representing consumer interests of insurance services (UOKiK – Office of Competition and Consumer Protection, RZF – Financial Ombudsman), emphasize the transparency of contractual provisions. Legal changes also force interest in readability issues, such as the Solvency II Directive, which one of the pillars (informative) draws attention to the issues of providing better protection for policyholders/people insured. Analyzing the contents of the General Insurance Terms and Conditions of Polish insurers, the widespread use of difficult, specialized language is observed, that makes it impossible for an ordinary citizen to decode and understand them. On the other hand, the recent transformation of the insurance industry, which is expressed by the marketization of insurance services, leading to an increase in their competitiveness, but also insurance awareness among consumers and their growing requirements for service providers, causes the interest of insurance companies to gain and maintain a competitive advantage. The remedy for improving the insurance contracts that most citizens do not understand and for distinguishing the insurance companies on the market by offering reliable high-quality services, may be formulas measuring the difficulty of General Insurance Terms and Conditions. In the author's opinion, the formulas would be a kind of signpost, detector for difficult-to-read provisions or expressions that could mislead the customer. In turn, for insurance companies, readability measures would become a tool for monitoring the educational level of product documentation, which allows to improve the quality of provided services and to build long-term relationships with their clients, as well as effective acquisition of potential buyers. In this context, the use of indicators measuring the readability level of the text in relation to insurance standard agreements (and especially to General Insurance Terms and Conditions) used by insurers in Poland is innovative. Bearing in mind the scope of research and the subject matter covered, the author is of the opinion that the PhD thesis may be useful for domestic insurance companies and institutions supervising this market. According to the author actions for clear communication and transparent insurance documentation in the near future will gain in importance.

3. Research objectives and theses

The **main objective of the dissertation** is to show that the measurement of the readability of the General Insurance Terms and Conditions may be applied in insurance practice. For the purpose of achieving the abovementioned main objective, the following **specific objectives** have been defined, which focus on:

- establishing a catalogue of formulas used to measure the readability of the General Insurance Terms and Conditions,
- identifying the importance of measuring the readability of the General Insurance Terms and Conditions and the level of recognition of the text which can be considered as "understandable" for the man on the street,
- review and evaluation of legal regulations regarding the General Insurance Terms and Conditions and their readability,
- the ability to create and evaluate the General Insurance Terms and Conditions in terms of readability based on the objectives of the "Plain English" movement.

The dissertation tried to demonstrate the truthfulness of the following **research theses**:

1. *Readability formulas are a good tool to measure the readability of the General Insurance Terms and Conditions.*
2. *Measuring readability of the General Insurance Terms and Conditions allows to improve or modify the policy of creating insurance products.*

In addition to the above, while investigating the research problem and analysing the literature on the subject, an **additional thesis (sub-thesis)** was formulated, worded as follows:

3. *The application of the "plain language" standards and the principles of a plain Polish language to the Polish insurance contracts may contribute to achieving a competitive advantage by insurance companies.*

The presented research theses were formulated on the basis of a critical review of the subject literature general knowledge of the author resulting from her professional experience related to the creation of insurance product documentation. The results of the questionnaire research, as well as the LOGIOS app shared by PhD Tomasz Piekot – Lead of the Simple Polish Language Office at the University of Wrocław and PhD Marek Maziarz – from the Logios scientific group, provided an invaluable contribution to the doctoral dissertation.

4. Methodology

The following research methods were used in the PhD thesis: logical reasoning, analysis and criticism of the literature, questionnaire and statistical.

The survey on the readability of the General Insurance Terms and Conditions from Polish market was carried out within a month, starting from June 15, 2017. The questionnaire was in the form of an online questionnaire interview, in which a total of 263 respondents took part. It consisted of 30 questions covering mainly closed and single/multiple-choice and matrix questions. One of them was prepared in the form of a gap test (cloze test), and was to fill nine gaps in the authentic text of the General Insurance Terms and Conditions by the respondents (one in five words were removed from it, and only one word could be entered in the empty space).

A simulation was also carried out using a simple Polish language model which was implemented in the LOGIOS application. The author was also based on the knowledge gained during her professional work in one of the insurance companies operating in Poland.

The time frame of the doctoral dissertation covers the years 2015-2018. During this period, the insurance market has undergone a number of changes in legal regulations: statutory (package of insurance laws, the Polish Civil Code), adaptation to EU directives (Solvency II) and regarding institutions (The Insurance Ombudsman was replaced with the Financial Ombudsman).

5. Structure of the dissertation

In order to achieve the goals described above, doctoral thesis was divided into five chapters. At this point, it should be noted that the structure adopted in this way was to progressively move closer to the main goal through the achievement of the specific objectives. All chapters form a logical package and each subsequent chapter is a continuation of the considerations arising from the previous one.

The first chapter, an introductory one, aimed at presenting the history and main assumptions of the global movement to simplify everyday language - "Plain English". The rules of "plain" language were discussed as well as the process of creating documentation based on them, being a universal solution that could apply to any type of text. Next, examples of countries with implemented standards relating to an easy, simple language of communication with clients were presented. This chapter also shows the benefits resulting from the use of plain language in insurance and the experience of insurance companies that have implemented and profited from a simplified language of communication and documents. The discussion ends with a description of initiatives taken in Poland to simplify the language of texts intended for a mass audience (in the shape of "Plain English").

In the second chapter insurance standard agreements and their components have been characterized as well as general legal regulations in relation to the insurance market in Poland have been discussed. Due to the fact that as part of the insurance product implementation, the insurance company (or rather the editorial and product team in cooperation with legal advisers) prepares a stack of papers, which are then signed by the client when concluding the insurance contract, this PhD thesis is limited only to the General Insurance Terms and Conditions, as a key document, being an integral part of the insurance contract. Attention was paid to internal regulations (laws and resolutions, but also procedures of a given insurer) and selected pro-consumer regulations of insurance contracts in the Polish legal system. The analysis of changes in the legal environment was made taking into account external acts – directives as well as common aspects (i.e. codes of ethics). Finally, an investigation of legal solutions with regard to insurance standard agreements and their readability on the example of selected countries was carried out, in order to allow them to be compared to legal regulations in Poland (incidentally, ever-changing, whether under the influence of supervisory recommendations or adaptation to EU requirements) in terms of changes aimed at clarifying and simplifying the language of insurance documents.

The third chapter has a theoretical character and concerns the measures of readability of the text. At the beginning, a discussion on the concept of readability was carried out and its components have been identified. The principles of transparency in relation to the General Insurance Terms and Conditions were also presented. Next, the methods of measuring readability were classified, with particular emphasis on the readability formulas (also called indexes). Due to their multitude, only a few of them have been focused – in fact, those which, apart from popularity, are also used by foreign insurance companies. Then, the weaknesses and strengths of the readability indices were compared, in order to show their comprehensive application, mainly in insurance practice. Finally, the author cited examples of legal solutions based on readability measures with respect to the insurance.

In the fourth chapter, having an empirical character, the results of the survey on readability were presented. The introduction refers to current insurance problems from the point of view of consumers and market supervisory authorities (through the analysis of complaints and reports on the control of standard agreements). Then, based on the available publications, studies, market reports, an analysis of the current research in terms of the readability of the General Insurance Terms and Conditions has been made. This was the starting point for the own research on the readability of the General Insurance Terms and Conditions, which were carried out in the form of an online survey using the CAWI technique. A total of 263 respondents took part in the survey, while the research sample was selected in a non-random manner. The purpose of the survey was to show that the readability of the General Insurance Terms and Conditions is an important element from the point of view of the customer who is soon to make a choice of insurance, and the use of readability formulas affects not only the quality of the service, but also is an added value for domestic insurance companies.

The last chapter, also of an empirical nature, is related to the subject of quality in insurance. In the first part, a theoretical discussion was carried out on the terms of products and services in insurance, and then it was shown that one of the determining factors for the quality of insurance benefits from the point of view of the customer-buyer of insurance service is a simple, understandable documentation. Afterwards, our own research confirmed the growing importance of the readability of the General Insurance Terms and Conditions (except for price factors) as a criterion for the selection of insurance, which was compared with the experience of other countries and the analysis of buying behaviour of foreign consumers. Then, a qualitative study was carried out on the readability of selected insurance standard agreements (from four different insurance groups) using previously discussed methods suitable for

measuring the readability of corps. The FOG grade formula adapted to the Polish language (FOG-PL) and implemented in the LOGIOS application was mainly used, as in the author's opinion this guaranteed reliable results. As a result, the stylistic features of the analysed General Insurance Terms and Conditions bodies were received along with the diagnosis – for which age group they would be considered as readable. Thus, on the basis of the result, being years of education needed to understand the given text, it can be concluded that the criterion of the readability for a mass recipient has been met (or not). An attempt was also made to check how the General Insurance Terms and Conditions fall out in comparison with other corpora taken from everyday life. At the end of the discussion on the readability of the General Insurance Terms and Conditions, a research hypothesis has been proposed, which was an assumption that the average education of Poles is enough to understand the General Insurance Terms and Conditions from the Polish market. Hypothesis was verified by means of a statistical test based on the FOG-PL index.

5.1. Extract from table of contents of a PhD thesis

INTRODUCTION

CHAPTER I – “PLAIN ENGLISH” MOVEMENT IN INSURANCE

- 1.1. The origins of „Plain English”
- 1.2. Definition of „plain”. The idea and principles of plain language and their practical application in the financial and insurance industry
- 1.3. Plain language standards used by foreign institutions and benefits of using them
 - 1.3.1. Plain English Campaign
 - 1.3.2. Leichte Sprache (Klarsprache)
 - 1.3.3. The advantages of using the “plain” language in insurance
- 1.4. „Plain English” initiative in Poland

CHAPTER II – STANDARD AGREEMENTS IN INSURANCE PRODUCTS

- 2.1. The concept, classification and characteristics of standard agreements in insurance
- 2.2. Shaping the content of the insurance relationship
 - 2.2.1. Internal acts
 - 2.2.2. External acts
 - 2.2.3. Customary aspects
- 2.3. Examples of legal regulations for standard agreements used by foreign insurance companies

CHAPTER III – READABILITY FORMULAS AND THEIR USE IN DETERMINING THE READABILITY OF THE GENERAL INSURANCE TERMS AND CONDITIONS

- 3.1. The essence and scope of readability definition
- 3.2. Classification of methods for measuring the readability of any text
- 3.3. Analysis of selected readability formulas to examine readability level of any text
- 3.4. The usage of selected formulas in insurance practice used by U.S. insurance companies

CHAPTER IV – READABILITY OF THE GENERAL INSURANCE TERMS AND CONDITIONS IN VIEW OF ONLINE SURVEYS

- 4.1. Selected current problems related to the functioning of insurance in Poland
 - 4.1.1. Consumer approach (insurance products)
 - 4.1.2. Market supervisory authorities approach (review of standard agreements and analysis of complaints)
- 4.2. Existing studies on the General Insurance Terms and Conditions and other standard agreements in terms of readability

- 4.3. Own research on the readability of General Insurance Terms and Conditions – survey
 - 4.3.1. Research goals and assumptions
 - 4.3.2. Presentation and analysis of the survey results
 - 4.3.3. Conclusions and recommendations for domestic insurance companies

CHAPTER V – THE USAGE OF THE READABILITY MEASUREMENT METHODS IN THE PROCESS OF ASSESSING AND IMPROVING THE QUALITY OF INSURANCE SERVICES IN POLAND

- 5.1. The quality of the insurance service versus the insurance product specifics
 - 5.1.1. Comparison of service and insurance product – theoretical discussion on concepts
 - 5.1.2. Determinants of the quality of insurance services and methods of its measurement
- 5.2. Impact of the readability of the General Insurance Terms and Conditions on the quality of insurance services
 - 5.2.1. Readability of the General Insurance Terms and Conditions as a selection criterion for insurance buyers
 - 5.2.2. Modifications of the General Insurance Terms and Conditions over the years – assessment of changes in terms of the impact on the quality of the insurance service and its readability
- 5.3. Application of selected methods in the study of the readability of the General Insurance Conditions from the Polish market
 - 5.3.1. Past analysis of the content of the General Insurance Terms and Conditions
 - 5.3.2. General Insurance Terms and Conditions selection algorithm and methods of measuring their readability
 - 5.3.3. Overall conduct of own research on readability of the selected General Insurance Terms and Conditions and analysis of results

SUMMARY

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LEGAL ACTS

LIST OF INTERNET SOURCES

LIST OF FIGURES AND TABLES

APPENDICES

6. Results and conclusions

Based on the collected research material, it was possible to show, that the measurement of the readability of the General Insurance Terms and Conditions may be applied in insurance practice, which was the main goal of this doctoral dissertation. Theoretical considerations from subsection 1.2, in particular on the origins, assumptions and principles of the social movement "Plain English" have laid the foundation for working out standards for simple and plain language which insurance companies can take full advantage of. Looking in detail at the legal solutions regulating readability of insurance standard agreements by foreign representatives of the legislature described in subsection 2.3., interest of legislators on the readability of standard agreements in insurance can generally be discerned. What is more, in many countries for a long time have been provisions requiring insurers to create product documentation based on the principles of the "plain" language movement and on the other hand, referring to formulas to evaluate of the analysed text in terms of readability. These formulas measuring the degree of understanding of the text, apart from the possibility of applying them to any chosen text, they allow to determine how many years of school education the recipient needs to fully understand the text that is being analysed. A thorough review of the methods for measuring the readability of the given text and the analysis of legal solutions based on readability measures regarding the texts of the General Insurance Terms and Conditions has been carried out in subsections 3.3. and 3.4.

The specific objectives, defined in detail in the introduction of this work, were helpful in achieving the main goal. The first one referred to the possibility of creating insurance-related documents based on the rules of the "plain" language, which the author confirmed in the first chapter, when the standards of a simple language used by foreign institutions were discussed. Additionally, the advantages of incorporating these principles by insurance companies at the stage of preparing and designing/editing General Insurance Terms and Conditions were presented. Another specific objective was to review and evaluate legal regulations regarding insurance contracts or standard agreements, as well as their readability, which the author made in subsection 2.2. Moreover, through empirical research carried out in subsection 4.3, the respondents expressed their opinion on the current legal regulations in relation to the readability of insurance contracts (from the domestic market) and ways to improve the quality of insurance services in order to increase their approachability. On this basis, it was possible to evaluate the practical approach to art. 385. § 2. of the Polish Civil Code about „the unambiguous and understandable formulation of the standard agreement” by domestic insurance companies. In

turn, subchapter 3.3 aimed to show a set of the most widely used readability formulas for measuring public texts, among which those used in the insurance industry were indicated. A special attention was given to the only index created for the analysis of texts in Polish – FOG-PL, which is based on the English formula called SMOG grade. The usefulness of readability formulas has been verified using empirical researches, both in the form of a consumer questionnaire (subsection 4.3.) and the analysis of the readability of selected General Insurance Terms and Conditions corpora in comparison with other texts taken from everyday life (subsection 5.3.). The last goal concerned stipulating the importance of measuring the readability of the General Insurance Terms and Conditions as well as determination of the level from which a given text could be considered as understandable to the average recipient. In part, this goal was achieved through an online survey, in which the respondents clearly indicated that the General Insurance Terms and Conditions are impossible to read for them and one way to stop the use of a difficult language and popularize more clear communication on the client-insurer's line is to use readability measures (79% of the respondents). In turn, empirical studies carried out in subchapter 5.3. proved that the reading-difficulty of the insurance texts is at least at the level of doctoral studies. In the face of current statistical surveys showing the average education of Poles, currently around 11.9 years, it is impossible to fully understand the content of insurance contracts or standard agreements by the man on the street, what is confirmed by the results of the survey. Therefore, it is essential to edit the General Insurance Terms and Conditions in the easiest way, preferably using rules for writing in plain Polish, so that they would be fully understandable not only for people with higher education, but every citizen who can be a potential client of an insurance company in Poland.

The author's own contribution is noticeable in every chapter and, apart from empirical research, includes market analyses in the field of:

1. approximation of the origin, basic assumptions of the "plain language" movement, as well as the benefits for insurers,
2. the usage of text readability formulas by foreign insurance companies,
3. assessment of currently functioning legislative solutions in terms of the provisions contained in them which are regulating the readability of insurance standard agreements,
4. presenting the current problems of the insurance industry,
5. review of the modification of the General Insurance Terms and Conditions over the years,

6. verification of current market research on the readability of the General Insurance Terms and Conditions,
7. demonstrating the impact of readability (and its measurement) on the quality of insurance services,
8. presenting current activities on the insurance market in Poland aimed at increasing the level of understanding of General Insurance Terms and Conditions by average citizens.

In the author's opinion, doctoral thesis has a practical dimension and can be useful from the perspective of insurance companies (especially product teams and insurance agents/advisors), market supervisory authorities or researchers interested in readability issues and its use in the field of insurance. The results of empirical research, as well as the theoretical analysis of the problem, allow to conclude that the aspect of readability in insurance will become more and more important. The readability formulas presented in this PhD thesis are a useful tool in the fight against the intricate and incomprehensible communication of insurance companies in dealing with customers. Thus, the problem described in author's doctoral dissertation is current and important both for domestic insurance companies, their clients and authorities supervising the insurance market in Poland.

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