

Complexity Is to Finance as Obesity Is to Health

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Is anyone else as amazed as I am that people are admitting without shame that they didn't know what they were agreeing to when they signed their mortgage note? The fact that closing documents are so universally acknowledged to be incomprehensible has sanctioned financial irresponsibility.

All over the nation, people are walking away from their homes and mortgage obligations. When asked why they didn't foresee adjustable rates moving up and requiring higher monthly payments, they all say that they didn't understand the documents they signed to get the mortgage. While stunned by the cavalier attitude of the borrowers, I'm equally amazed by the lenders who seem to acknowledge that the borrowers couldn't have been expected to understand what they were signing.

Have legalese and the confusion it engenders moved from being a nuisance to an economic cataclysm? After all, "small print" exists in large quantity. Do you understand your health insurance policy? Your credit card agreement? Your homeowners' policy?

+ A 2007 NATIONAL ASSOCIATION OF INSURANCE COMMISSIONERS (NAIC) SURVEY REVEALED THAT ONE-THIRD TO ONE-HALF OF HOMEOWNERS' INSURANCE POLICYHOLDERS WERE MISINFORMED ABOUT WHAT PERILS ARE COVERED BY THEIR POLICIES AND HOW MUCH THEY MIGHT RECEIVE IF THEY MADE A CLAIM.

We shouldn't be surprised. Policies are lengthy legal documents constructed with boilerplate language that is then modified with numerous notices and endorsements.

Even motivated readers who put on their reading glasses are unlikely to relate the significance of the policy provisions to real-world events. Consider the term "actual cash value." Shouldn't we admit that it sounds like a good thing, not a bad thing? To real people (not lawyers), it sounds like what it costs to buy the item, not its depreciated value.

The uptick in mortgage rates hitting so many people simultaneously is what has brought this issue to the forefront. Gobbledygook in other industries such as insurance and credit cards also affects many people but one at a time. How often does more than one family on a suburban block suffer a death, a major illness, or a car accident at the same time? The difference with the subprime mortgage mess is that many families are experiencing the implications of their mortgage agreements at the same time and comparing notes.



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Our largest companies and financial institutions have trained customers to be passive consumers. Many people simply sign a legal document without reading it because they don't expect to understand it. So, customers coast along in blissful ignorance until they hit the rare event of a claim, and then they understand the significance of what they did or did not have covered.

So where will hidden clauses surface next? A severe stock market decline will make investors acutely aware of the many stinging provisions within their brokerage agreements.

It is only when one company in a category wakes up that an entire industry changes. Health care services are a good example. Outpatient surgery facilities are competing by having broader hours, doing follow-up "how are you feeling" calls, letting family members stay with the patient, sending you home with "goodie bags," etc. Hospitals advertise heavily to make sure you realize that an appendectomy is not the same everywhere. In just a few short years, patients have been transformed from passive subjects to active participants and their expectations have ratcheted up in proportion.

Everyone is clamoring to put our nation on a diet to combat obesity. Complexity is another lurking epidemic. Plain English and common sense would let us have our cake and eat it too.

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