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# Growing trust, transparency and technology

Insurance customers'  
perspectives in a global  
context

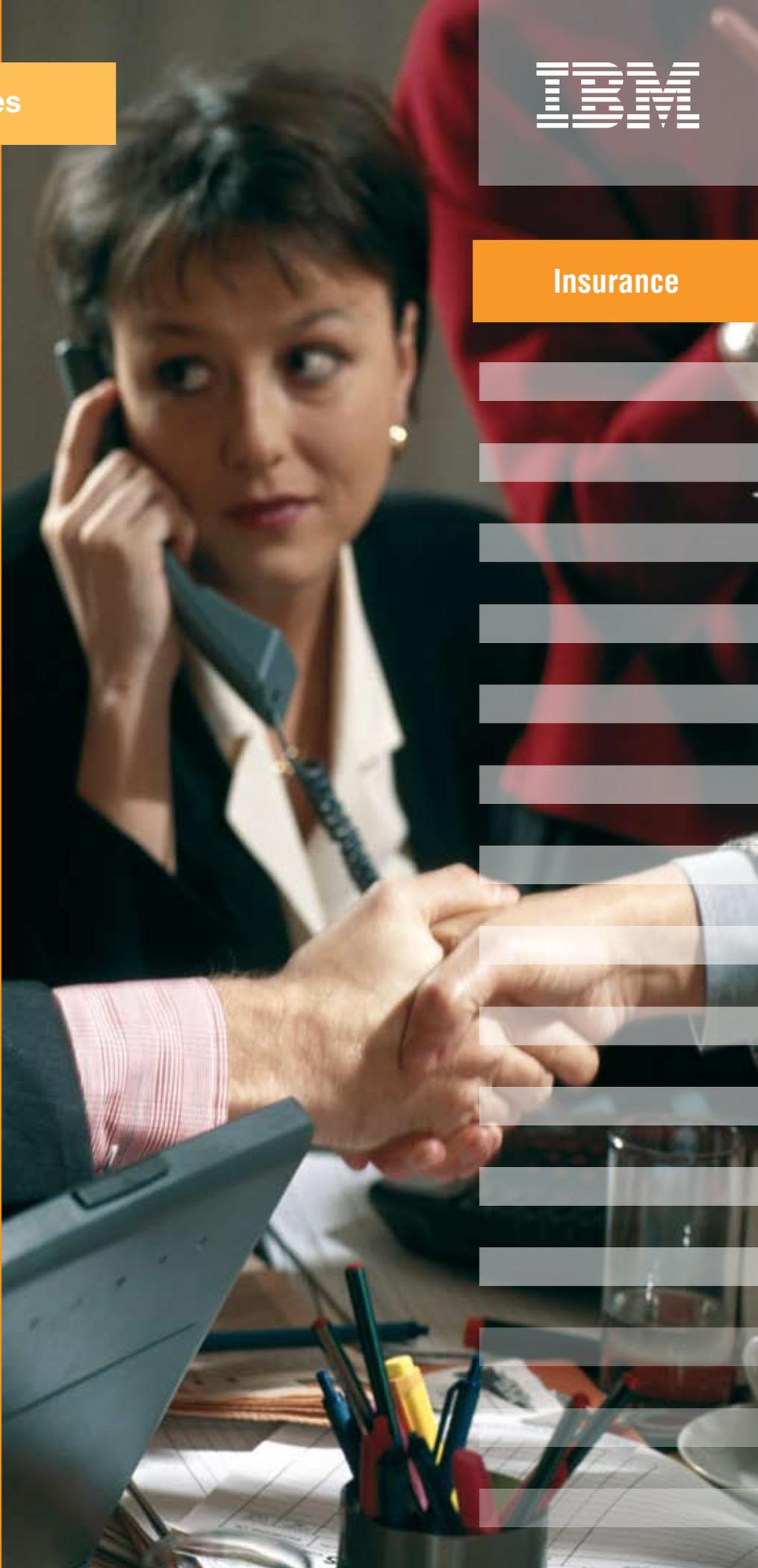
Insurance

In association with

Institute of Insurance Economics



University of St.Gallen



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IBM Global Business Services, through the IBM Institute for Business Value, develops fact-based strategic insights for senior executives around critical public and private sector issues. This executive brief is based on an in-depth study by the Institute's research team. It is part of an ongoing commitment by IBM Global Business Services to provide analysis and viewpoints that help companies realize business value. You may contact the authors or send an e-mail to [iibv@us.ibm.com](mailto:iibv@us.ibm.com) for more information.



# *Growing trust, transparency and technology*

## **Insurance customers' perspectives in a global context**

*By Christian Bieck*

*Fact or myth: "Insurance is a low-interest product?" Fact or myth: "All our customers care about is price?" In an update to our previous European consumer study, we take a look at insurance customers in the Americas to see how they compare to their European counterparts.<sup>1</sup> The facts? American customers care about price, but they care a lot more about trust and transparency.*

### **Introduction**

A previous IBM study, "Trust, transparency and technology: European customers' perspective on insurance and innovation," surveyed insurance customers across Europe to understand their attitudes, values, experiences and resulting behavior toward insurance companies.<sup>2</sup> The key findings were:

- The insurance industry suffers from a general lack of trust – the "animosity issue."
- While cost is important, price is not the most significant value driver. Transparency, honesty and good service are more important to consumers.

- Uniform, standardized insurance offerings cannot work because customer types and needs differ too greatly within and across countries.

Our European study found that insurance customer segmentation by attitude and values is not a function of traditional demographic distinctions, but of cultural characteristics. In hindsight, this result seems obvious and so should also be true in other developed and developing markets – but again, the only way to be sure was to ask customers directly.

After adding five countries in the Americas to the survey, the original findings remain intact: trust, transparency and technology are the attributes that insurance companies need to serve their customers successfully. In fact, the recent global financial crisis has made regaining customer trust all the more imperative for insurance companies hoping to survive and prosper long term in the aftermath of the current downturn.

### **Research methodology**

To gather the necessary quantitative data, the IBM Institute for Business Value and the I.VW Institute of Insurance Economics of the University of St. Gallen, Switzerland, developed an online questionnaire. The same questionnaire that was used in the 2007 insurance study of Europe was translated into Spanish and Portuguese and distributed through affiliated market researchers in the United States, Mexico, Brazil, Argentina and Chile. The number of relevant respondents was approximately 400 per country, bringing the total number of consumers surveyed in Europe and the Americas up to 4,400.

To simulate the “customer of the future,” an “Internet affinity” filter was applied to screen desired questionnaire participants in the United States. It identified respondents who use the Internet regularly and shop online. Since Internet access in Latin America is less common and Latin American respondents were also surveyed online, “Internet affinity” could be presumed there and no such filter was deemed necessary. The demographic distribution of respondents in the Americas was similar to that in the original European study. When comparing data between studies, all countries were weighted equally at 400 respondents. Segmentation was done using discriminant analysis. The survey was conducted in August 2008.

# Growing trust, transparency and technology

*Insurance customers' perspectives in a global context*

Like their European counterparts, U.S. insurance customers exhibit a general lack of trust in the insurance industry.

## The customer of the future in the Americas

In our European study, we were able to cluster our respondents into five distinct groups based on their insurance attitudes and value drivers (see Figure 1):

1. Support-seeking minimalists have very low trust in the insurance industry in general, but a high need of a personal expert to help them navigate their insurance options.
2. Product optimizers know what they need, shop around to find it and are willing to pay more, if necessary.
3. Uninterested minimalists are the fabled “low-interest customers” who do not care about insurance and want as little as possible to do with it.
4. Price-sensitive analyzers seek information, not advice, about insurance and shop around mainly for price.
5. Relationship-oriented traditionalists are the “classical” insurance customers. They trust insurance more because they trust

the person who sells the insurance – even though they don't know the facts or how competent their advisor really is.<sup>3</sup>

To examine insurance attitudes on a more global level, the current study asked the same set of questions that were posed to European insurance consumers to their counterparts in the United States, Mexico, Brazil, Chile and Argentina. Not surprisingly, all five countries' responses differed from one another and from the European sample. In examining the country-by-country results, we grouped U.S.-based responses with those of Europe, as all of these countries have a high insurance density, and examined emerging Latin American market responses (with relatively low insurance densities) separately.

### **United States: the price sensitive market?**

U.S.-based respondents mirror European consumers in their *general lack of trust* in the insurance industry. Fully 80 percent of U.S. customers value honesty and trustworthiness highly. Seventy-four percent prize

FIGURE 1.  
Customer types.

Cluster	Support-seeking individualists	Product optimizers	Uninterested minimalists	Price-sensitive analyzers	Relationship-oriented traditionalists
Key theme	“I want competent help for my personal needs”	“I want a great product”	“I want to be left alone”	“I want the best bargain”	“I want somebody I can trust”
How to approach them	Personalized with proven expertise	Individualized and as best-of-breed	Simple and standardized	Standardized and transparent	Traditionally through agency channels

Source: IBM Institute for Business Value survey data. n=4,400.

transparency and clarity. At the same time, U.S. customers, like those in Europe, give the insurance industry bad grades in these areas. Only 41 percent of U.S. customers agree with the statement that “insurance companies can be completely trusted.”<sup>4</sup>

What about *price as a value driver*? In Europe, the United Kingdom had the highest concentration of price-sensitive customer types (uninterested minimalists and price-sensitive analyzers). Cultural indicators that correlate to price-sensitivity suggest that U.S. customers would be even more price-sensitive.<sup>5</sup> Indeed, “low premiums” rank a close second in what U.S. customers value most, with 79 percent of respondents valuing it highly. Only “honesty and trustworthiness” (at 80 percent) were more important to U.S. consumers. European respondents ranked price as the fifth most important factor in their insurance decisions, behind fast and uncomplicated claims procedures, honesty and trustworthiness, transparent and clear documentation and competent and well trained agents.

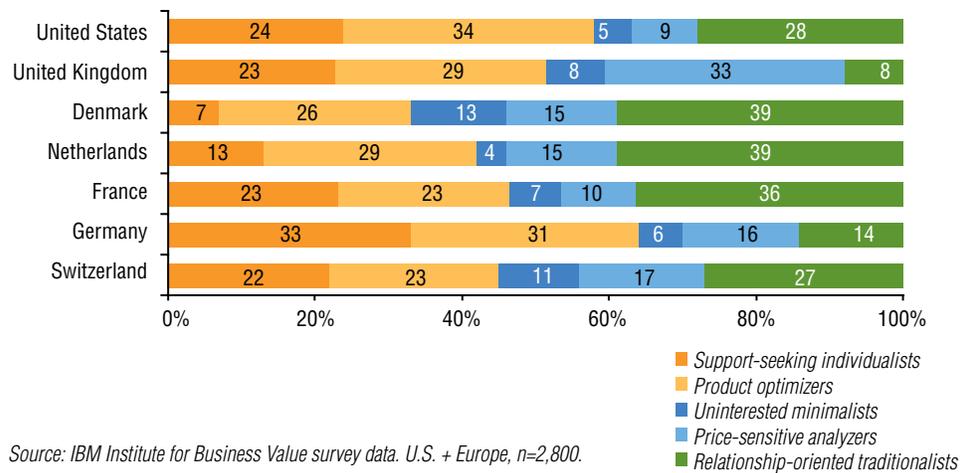
After segmenting customers according to all attitude and value aspects, though, the picture becomes surprisingly different (see Figure 2).

Uninterested minimalists and price-sensitive analyzers – the two types for which price-sensitivity is the prominent factor – make up only 14 percent of the total U.S. sample, lower than in any of the western developed countries surveyed. In contrast, 52 percent (24 percent individualists and 28 percent traditionalists) are person-oriented, and the rest is in search of the best product. How can that be?

To answer that, we have to look at the factors that make up the segmentation. The United States has much higher scores on most variables that are important to consumers in their dealings with the insurance industry. In particular, factors that relate to *personal relationships* are seen as highly important, more so than the international average.

The agent seems to be an important value driver for U.S. customers. They want him or her to be well trained (78 percent), accessible

FIGURE 2.  
Customer type distribution in the United States and Europe.



**For U.S. customers, price is important, but works to minimize customer dissatisfaction rather than motivate the sale.**

(73 percent) and trusted (65 percent). We can underscore this stronger reliance on personal relationships by examining the responses to the information behavior questions: the Internet, while still the number one source of information for U.S.-based consumers, is used less than in Europe, while recommendations from peer groups and from insurance agents are used more.

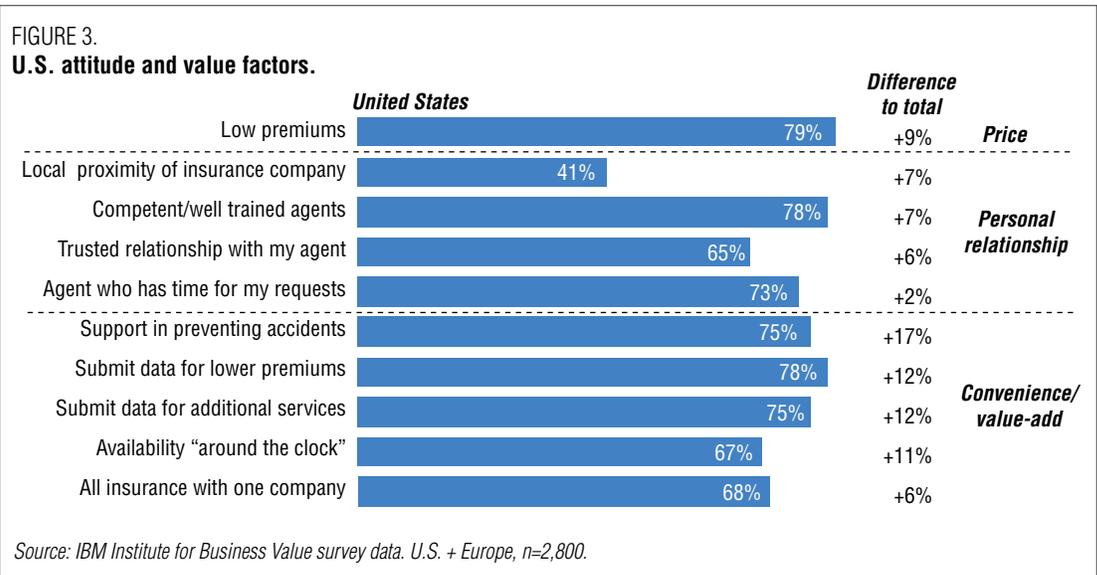
The second aspect that influences segmentation is the need for *convenience and value-added services*. The ratio of U.S. respondents that highly value “support in preventing accidents” is 75 percent – 17 percent more than the overall average of all countries! Other factors also rate highly, as we can see in Figure 3.

The consequence for U.S. insurers is clear: price is an important variable, but it seems to work like a *hygiene factor* – something that minimizes the risk of customer dissatisfaction rather than motivating the sale.<sup>6</sup>

Consumers are open to sharing data, if doing so adds value. Insurers should use the insights gained from greater data sharing to enable their agents to provide better service. Trust in the industry is low, but by taking advantage of U.S. consumers’ need for personal relationships and their inclination to take advice from peer groups, insurers could help form online and offline communities to help strengthen their respective images and provide added service to consumers. Last but not least, the “animosity issue” is not a given. Insurance customers seek trust and, as we stated in our 2006 study, “Insurance 2020,” a concerted effort by the insurance industry might be the best answer to gaining more trust.<sup>7</sup>

**Latin America: challenges and opportunities**

As we noted previously, we decided to analyze Latin America separately because of the major differences in market saturation. According to our original methodical approach, we approximated the “customer of the future” by applying



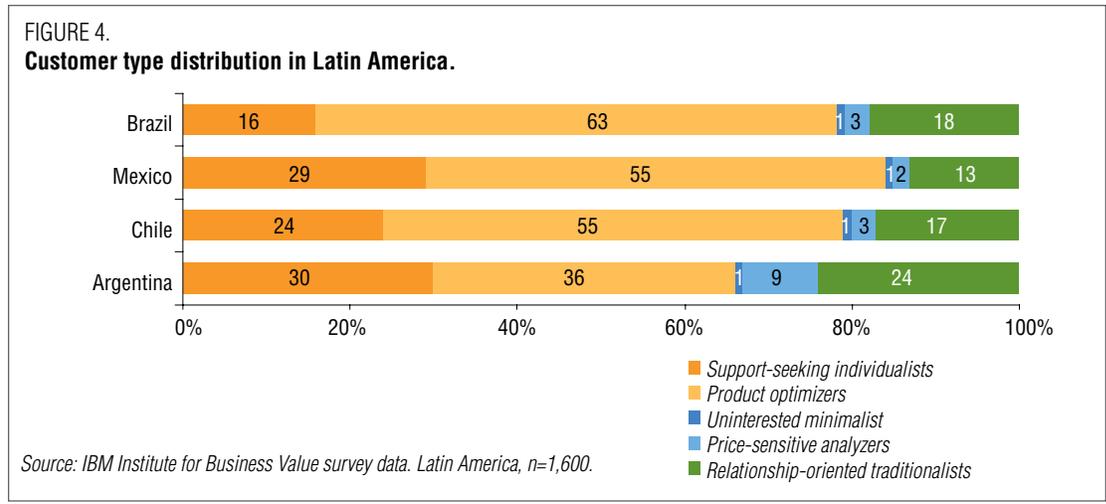
the filter of “Internet affinity” to the survey panel population. In Latin America, that filter is not necessary: because Latin America’s e-readiness rating is much lower than those of the United States or Western Europe, an online survey automatically limits the scope of our research to a subset of the population.<sup>8</sup> This subset is likely to be the same as “the customer of the future with respect to insurance,” so despite these screening filters, we still feel our consumer sample is representative of existing and potential insurance customers in Latin America. Our sample is surprisingly consistent demographically with those of the United States and Europe. The only major difference is the lower average age of respondents in Latin America – 36 years compared to 42 years in the U.S. and Europe.

Here, too, we find the “animosity issue:” in the average of Latin American countries surveyed, trust in the insurance industry is 48 percent. Country figures on trust range from 38 percent in Argentina to 57 percent in Mexico.

*Low premiums* are valued highly by 64 percent of Latin American respondents, but none of the countries surveyed place cost anywhere near the top of their value charts. The regional variance by country surveyed is extraordinarily high. Price was the 13th most important factor to respondents in Brazil, with 43 percent rating it very important. Low premiums ranked 11th in importance to Mexican respondents, with 77 percent giving it very high importance.

When we look at *customer segments* in Figure 4, the relative unimportance of price is even more apparent. Uninterested minimalists are practically non-existent due to the nature of Latin American markets and our sample selection criteria. Price-sensitive analyzers would be consistent with our sample group, but still only matter to a small degree. The main focus in Latin America seems to be on the products.

Why are product optimizers so much more prominent in Latin America than elsewhere?



**CEOs believe the customer of the future will be more active and informed.**

Our data indicate one important explanation: 58 percent of respondents said they wanted tailor-made products – more than double the percentage of European and U.S. consumers that expressed a desire for customized insurance coverage. Other factors are: a high need for a large selection of products and services (22+ percent), flexible products (12+ percent), comprehensive protection from all risks (18+ percent) and support in preventing accidents (24+ percent). Latin Americans also want the personal touch, with high numbers on all the agent-related questions. Latin America is also the only region surveyed in which “local proximity of my insurance company” is very important (65 percent, i.e. 32 percent higher than Europe and the United States).

With the many striking differences between Latin America and the other countries, any deeper analysis (which was beyond the scope of this paper) would have to be conducted on a country level. Even though the Latin American averages are quite distinct from those of Europe and the United States, there is a great deal of variance between Latin American countries surveyed as well, with those in Argentina looking almost European in their insurance attitudes and preferences and Brazilians being a world apart.

Besides the obvious challenges of reaching a part of the population that has never previously been in touch with the insurance industry, it seems safe to say that Latin American insurers would be well advised to shed many “old-world” ideas about insurance. Copying standardized products and models seems unlikely to work in this region. Latin American customers are very clear about what they want and need. Again, above all insurance in Latin America has to lead to trust through transparency.

**Trust, transparency and technology in a changing world**

In our 2008 Global CEO study, IBM asked more than 1,000 chief executives around the world about the future of their industries and their enterprises.<sup>9</sup> Judging by the answers, the insurance CEOs in the sample believe that customers are changing and that the customer of the future will be more active and informed. Surprisingly, the conclusion the majority of insurance CEOs draws is that the industry needs new products, not more transparency.<sup>10</sup>

In addition, recent events have started to dramatically reshape the total financial services landscape. Some observations:

- The few large failures in the insurance industry were most likely isolated incidents due to specific risk structures – not to systemic problems.
- Insurance companies typically invest a large amount of money in capital markets. While this necessarily creates exposure to the volatility of these markets, the large majority acted conservatively, in addition to having a sound core insurance business.
- That said, not all insurers managed equally well. Merger and acquisition (M&A) activity has started and is likely to continue for some time, but it is unlikely to change the basic structure or operation of the industry.

Today’s pressing economic problems have accelerated because of a lack of trust, not only by consumers but by all market players. Even though this is most visible in the banking sector, the globalization of economic difficulties affects other industries as well.

**Consumer trust in the industry is low because transparency is lacking – and has been for years.**

The insurance industry may be particularly vulnerable because the lack of trust many consumers have in the industry could be reinforced by their reduced confidence in other types of financial institutions.

As can be seen from our data, insurance customers around the world value honesty and trustworthiness, even more highly than price. At the same time, consumer trust in the industry is low because transparency is lacking – and has been for years.

In the past, insurers' first response to declining macroeconomic conditions has often been to tighten their belts and focus on cost and price competition. Both these responses and investment in new products seem inadequate. Not only do they ignore all the other factors that customers value – these strategies will likely do little to regain consumer trust, which is a key to future growth. The always present danger of industry players retreating into navel-gazing is further increased by the changes in regulation and anticipated increases in insurance supervision.

The current situation offers explicit opportunities to those insurers that can most effectively bridge the trust gap – especially if their rivals make little effort to do so. Our study shows:

- The four focus areas of action – *flexibility, personalization, experimentation and community* – are still the right things to do to reach customers.<sup>11</sup>

- *Speed of action* is becoming very important.
- Technology should be used to improve transparency *now*. Increased regulation will begin forcing more transparency soon, and customers are now demanding it. Only by having clear and consistent data, applications and processes throughout the enterprise can the optimal transparency level be reached.
- Improved transparency is more than an upcoming regulatory mandate – it is perhaps the best way to raise trust levels. Increasingly, customers are demanding simplicity and clarity. Insurance companies have a collective interest in meeting these demands. In the end, only by acting together will insurers likely be able to improve their score on the question “To what extent do you trust the insurance industry?”

There is no time to waste. If your company waits for the dust to settle, your nimble competitors may surge ahead in the race to win the customer of the future.

## About the author

Christian Bieck is the leader in Europe, the Middle East and Africa for the IBM Institute for Business Value Insurance practice of IBM Global Business Services. Christian is an economist by training; he worked in various roles in the insurance industry in Europe before joining IBM as a process consultant and researcher. Christian is a frequent speaker on thought leadership and innovation at insurance events and workshops. He coauthored various papers on insurance trends and implications; he can be reached at [christian.bieck@de.ibm.com](mailto:christian.bieck@de.ibm.com).

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- <sup>2</sup> Ibid.
- <sup>3</sup> Ibid.
- <sup>4</sup> Ibid.
- <sup>5</sup> The individualism score of the United States – which correlates most to price-sensitivity – according to Hofstede is 91, compared to 89 for the United Kingdom. See Hofstede, Geert. *Culture's Consequences: Comparing Values, Behaviors, Institutions and Organizations Across Nations*. Sage Publications, 2003.
- <sup>6</sup> See Herzberg, F. "One more time: how do you motivate employees?" *Harvard Business Review* 46 1968. The term "hygiene factor" was originally coined to explain the theory of job motivation, but has been expanded to include other factors that can cause dissatisfaction if missing, but do not necessarily motivate if increased.
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