

Institute of Insurance Economics



University of St.Gallen



# The consumers' view of consumer protection Results of an empirical study



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# Do consumers need to be protected from the unethical behaviour of the insurance industry?

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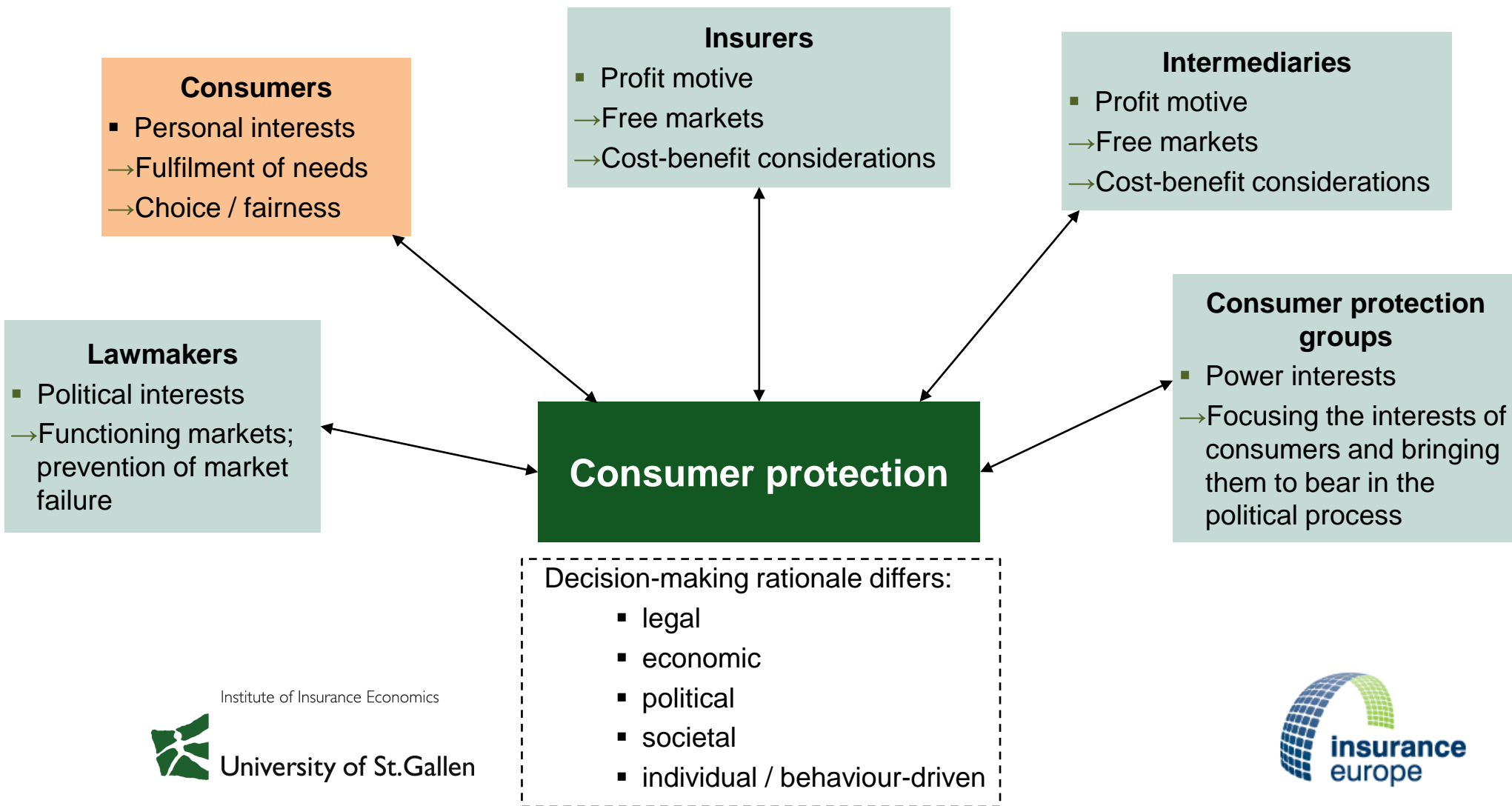
## A flood of lawsuits: Mega scandal around life insurances



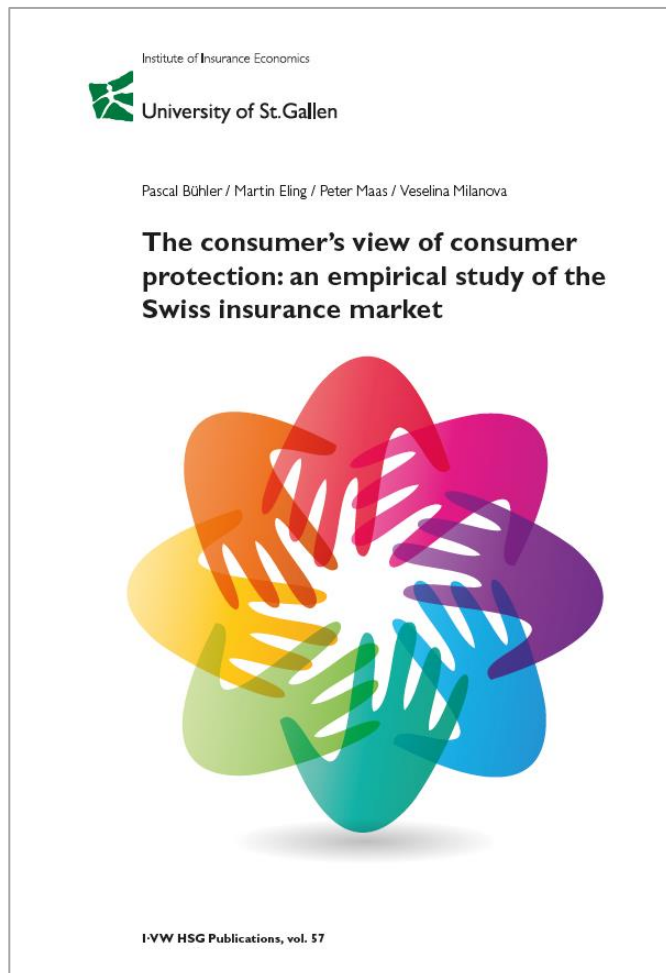
Foto: APA/dpa-Zentralbild/Arno... Konsumenten haben "ewiges Rücktrittsrecht" bei falscher Widerspruchsbelehrung

Over a million of insurance policies with faulty withdrawal instructions. Customers can reclaim premiums.

# Consumer protection: diverging interests and rationales of selected stakeholders



# Goals of the study



1

Understand consumer protection from the consumers' standpoint

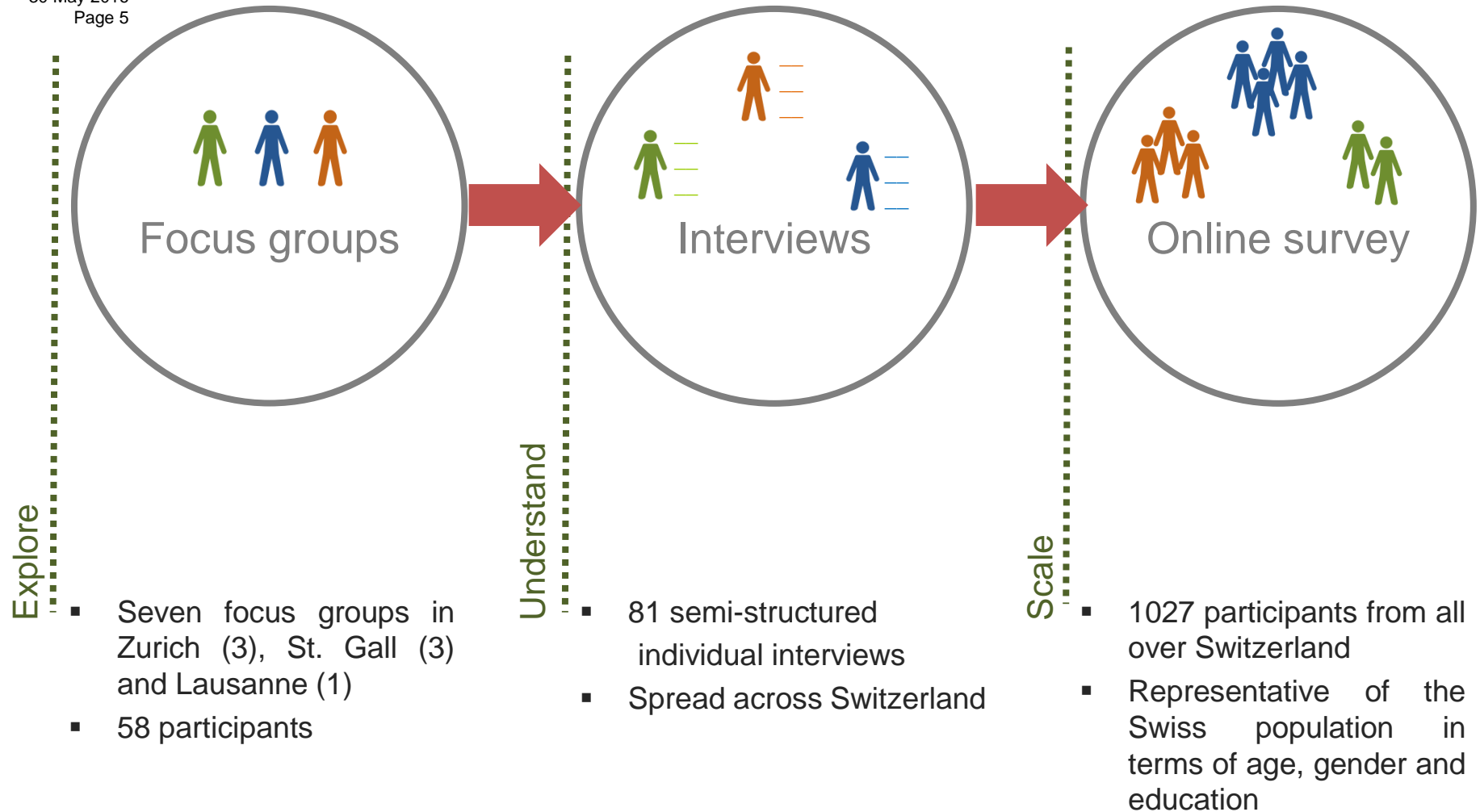
2

Develop a typology of consumers in terms of their need for protection

3

Develop guidelines for achieving effective consumer protection in Switzerland

# Empirical basis



# Three distinct types of consumers

## Delegators

*"It's basically an apprentice-master relationship."*



## Pragmatists

*"Insurance? Just file it away somewhere."*



**Striking passivity** and average knowledge

## Autonomous decision-makers

*"Because I know exactly what I want and what I can do."*



**Passivity** and advice from others

# Three distinct types of consumers

## Delegators

*"It's basically an apprentice-master relationship."*

Personal responsibility



Basic financial literacy



Information behaviour



Interest in insurance matters

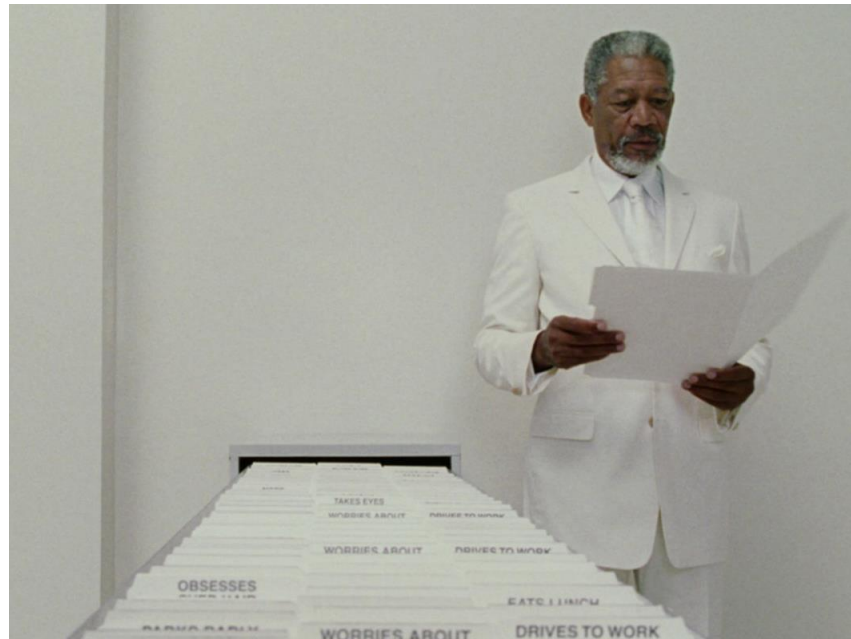


**Vulnerability assessment:**

**Illiteracy and heavy  
 reliance on advice**

## Pragmatists

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# Quantification

## Delegators

*"It's basically an apprentice-  
master relationship."*

**23%**

## Pragmatists

*"Insurance? Just file it  
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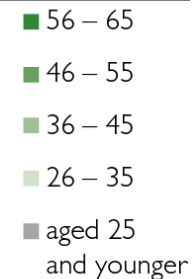
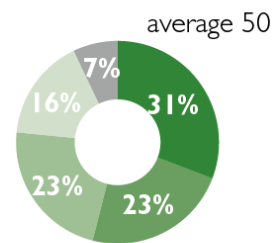
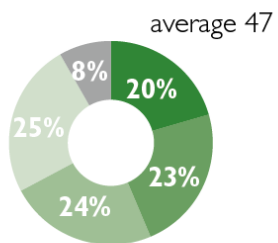
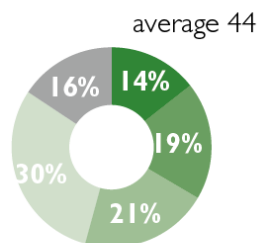
**41%**

## Autonomous decision-makers

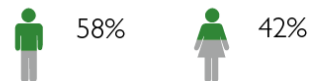
*"Because I know exactly what  
I want and what I can do."*

**36%**

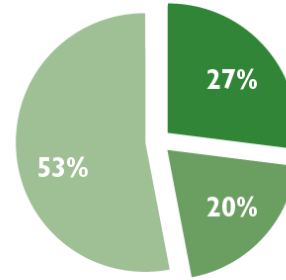
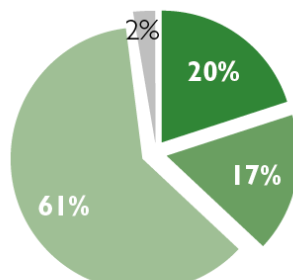
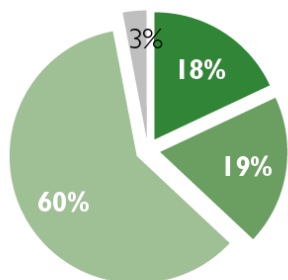
### Age



### Gender



### Education and Training



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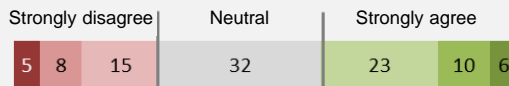


# Tighter regulation of the insurance market: opinion is split among consumers

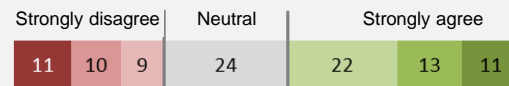
## Level of regulation from the consumers' standpoint

% of those surveyed, n = 1027

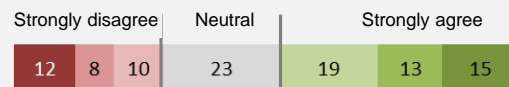
The high level of consumer protection in the field of insurance makes me feel safe.



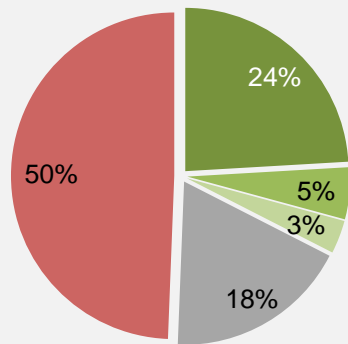
The official authorities should offer more support about what insurance to take out.



The state should regulate the insurance market more tightly in order to protect consumers.



## Costs of regulation



% of those surveyed wanting tighter regulation, n = 486

- I am prepared to accept a marginal increase in my insurance premium (up to 5%) for additional consumer protection.
- I would be prepared to accept an increase of some 10% in my insurance premium for additional consumer protection.
- I want additional consumer protection. Consequently I am prepared to accept premium increases, regardless of how high they are.
- I am prepared to pay higher taxes in order to cover the costs.
- I am not prepared to pay for additional consumer protection.

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- Consumers do not necessarily support tighter regulation (especially when it involves additional costs).
- Consumer protection hardly registers in the insurance market :

*“Consumer protection is not just about foodstuffs, but also the Swiss railway system (SBB), the postal service and all companies of this kind in Switzerland.”*

- However, a large percentage of the population (46%) wants official help during the decision-making process.



# Information overload is a major potential danger



## How do you gather information on insurance matters?

“I definitely ask my family and friends. I don't research things myself because you wind up in an endless loop. I prefer to go to a consultant and say: 'Tell me ...'.”

### Effects on vulnerability

- Incorrect assessments of risks, and misunderstandings as regards promised benefits, can lead people to make wrong decisions
- Strong dependency on consultants: the decisions of insurance holders are only as good as the advice they have received from their consultants



# Technical jargon in insurance policies: more comprehensible wordings needed

## Top 5 contractual information for product data sheet

### Household contents insurance

1. Benefits
2. Exclusions
3. Criteria for setting premium
4. Notice periods
5. Channels for lodging complaints

### Life insurance

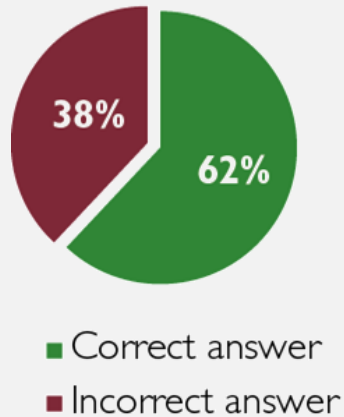
1. Benefits
2. Exclusions
3. Withdrawal from contracts
4. Notice periods
5. Investment risks

- Consumers require an overview of insurance benefits and exclusions
- Product data sheets listing the key contract information enhance clarity
- Initiatives to safeguard and enhance the quality of consultations

# Information asymmetry: consumers have only a rudimentary financial literacy

## Interest rates

Imagine you had CHF 100 on your account and it earned 20% interest per year. You leave the money on your account for five years. What would your account balance be at the end of that period?



- When asked **four basic questions** on inflation, interest rates, purchasing power and the time value of money, **32% correctly answered no more than two**
- This applies especially to delegators, the young, the poorly educated, low earners and women
- Those surveyed find questions on insurance to be even more difficult than questions on finance

# Digitization facilitates a simple and consumer oriented communication

**tröv** HOW IT WORKS | HELP | GET NOTIFIED

**Claim Di** DETAILS ABOUT YOUR THINGS  
 & PROTECT JUST WHAT'S IMPORTANT TO YOU

**K4K** Minor Accidents, Shake And Go Shake your mobile phone with the one of the 3rd party to get your claim approved, without waiting for a surveyor

**EMERGENCY** **AMODO** **Driver Copilot** **CAR INSPECTION**

**AMODO** HOME SMART REPORT TRENDS ANALYSIS MY TRIPS VEHICLE STATUS

DISPLAYING SUMMARY FOR: **Maeda 6** DISTANCE AVG: **564** TIME IN TRAFFIC: **19h 13m**

2016/10/18 19:42 (11.6 km)

OVERALL SCORE: <b>98</b>	OVERSPEEDING TIME: <b>12%</b>	SPEED OVER THE LIMIT BY: <b>21%</b>
ACCELERATION: 100	TRIP START: 18 Nov 19:42	TRIP END: 18 Nov 20:16
BRAKING: 95	AVERAGE SPEED: 25 km/h / 70 km/h	idle TIME: 12%
CORNERING: 98		

YOUR INSURANCE: Is your Insurance Policy about to expire? Extend your insurance policy here by purchasing extra insured kilometers for your vehicle. **PURCHASE NOW**

INSURANCE NEWS: **CAN TELEMATICS MAKE YOUR CAR INSURANCE CHEAPER?**

**79** Congratulations you are improving your driving skills! **START DRIVING**

ACHIEVEMENTS: **SAFER DRIVER**, **FLUENT DRIVER**, **SAFER DRIVER**

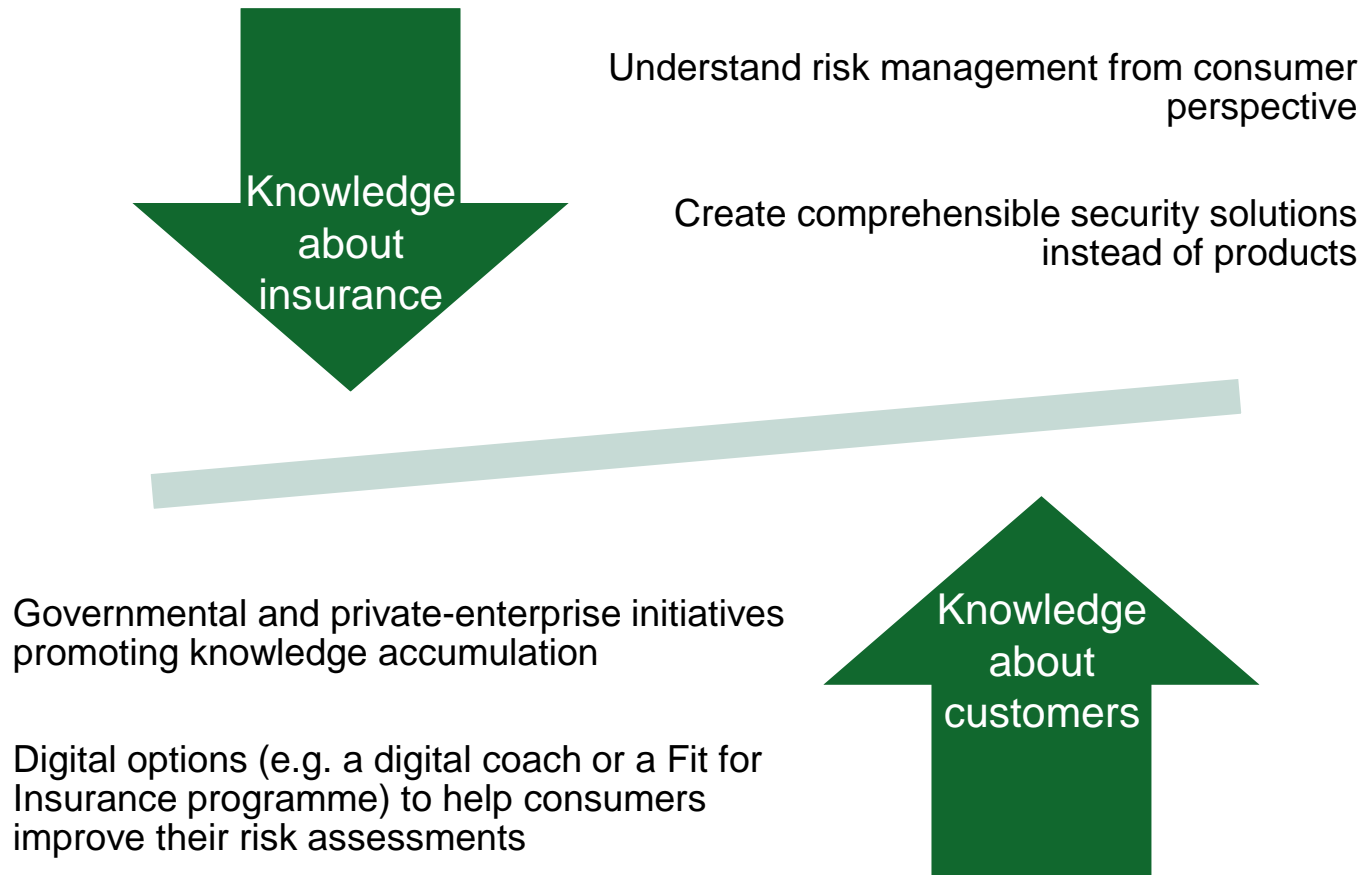
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Facilitate the product

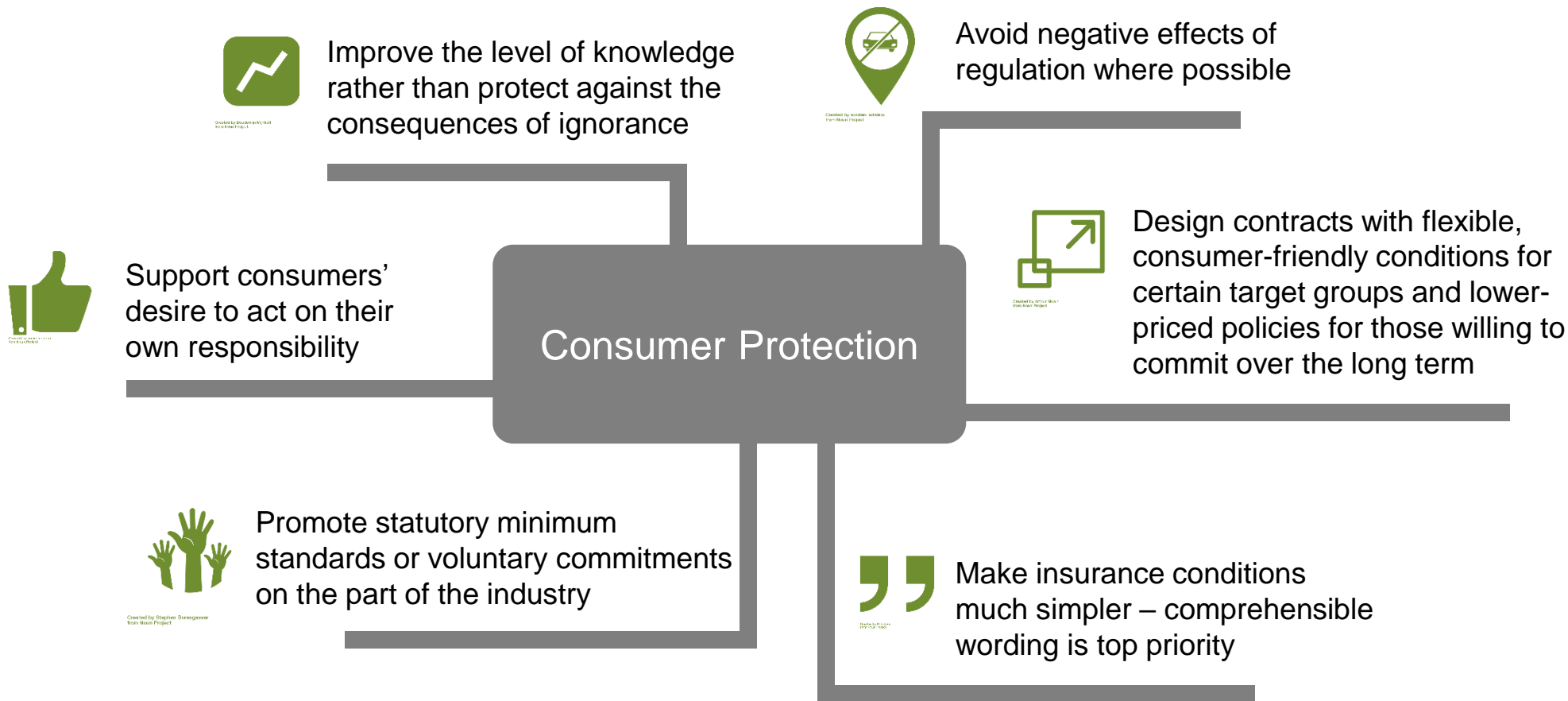
Facilitate the process

Enhance the involvement

# Knowing and understanding – a must for consumers and insurers



# The interplay between governmental support, freedom of choice and market innovation





# Findings of the study: implications and recommendations for action

1

**Preserve consumers' freedom of choice**  
**More proactive and self-regulating industry**

**53%**

don't want tighter  
regulation

2

**Information for the customer – less is more**  
**New initiatives for enhancing customer information (digital coach)**

**76%**

don't know that an  
Ombuds Office exists

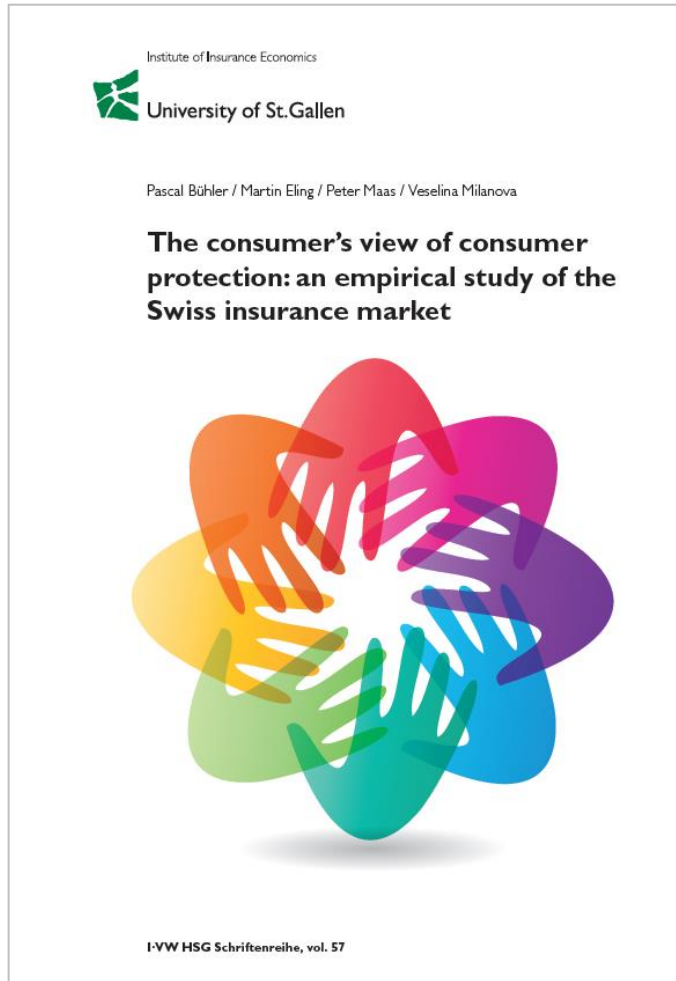
3

**Greater knowledge of insurance and better customer understanding**  
**State and private initiatives to increase knowledge (Fit for Insurance)**

**1/3**

has substantial deficits in  
basic financial literacy





**THANK YOU FOR  
YOUR ATTENTION!**