Consumer Behaviour and Ethics in Insurance

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Overviews

• Consumer behaviour and ethics play important roles in the marketing of insurance products hence the need for their study.
• It is pertinent to note here that the consumer, who could be referred as the client or customer in insurance is also known as:
  o Insured
  o Assured
  o policyholder
Who is the consumer?

• Usually when we refer to the consumer or customer we are referring to the person who buys the product in the case of insurance, the policyholder or the insured. However many other customers may be associated with the insurance companies in the market. They are:

  ▪ External customers – people outside the business who is in position to buy or use the companies’ products.

  ▪ Internal customers – who are the employers or intermediaries in the industry.
Methodology

• We will divide the lectures into two broad areas which are:
  o Consumer behaviour
  o Ethics
• We look at both concepts and their relationship to insurance practices, their importance among others
Consumer behaviour

- This is the study of how of individuals, groups or organisations and the processes they use to select, secure or dispose of products or services so as to satisfy the needs of the consumer.
- It can be seen as a study of the consumer buying behaviour with the consumer playing three distinct roles of the payer, the buyer and the user.
Why we study Consumer behaviour

• The psychology of how consumers think, feel, reasons and select between alternative products
• The psychology of how the consumer is influenced by his environment.
• The behaviour of the consumer in making marketing decision
• What motivates a consumer in buying a product
• How marketers could use all these in making marketing decisions
Factors influencing consumer behaviour

- Cultural factors
- Social factors
  - Groups
  - Family
  - Roles and Status
- Personal factors
  - Occupation
  - Age and Life cycle stage
  - Economic situation
  - Personality
  - Psychological factors
Psychological factor

As a result of the important roles that the psychological factors play in consumer behaviour, we will examine below these factors:

• Motivation
• Perception
• Learning
• Beliefs and attitudes
Stages of the consumer buying process

There are six stages and they are:

• Problem recognition
• Information search
• Evaluation of alternatives
• Purchase decision
• Post purchase behaviour
The importance of the consumer to a business

Rapid changes in consumer demands, greater consumer awareness of financial services products, and technological improvements, together with diversification of distribution channels have resulted in both insurers and intermediaries needing to change their working practices not least to focus more closely on the importance of the consumer.

The personal lines market place has undergone enormous change in the last ten to fifteen years. This has encompassed both:

- The products available to the buyer; and
- The ways in which they can purchase them
Insurance – an overview

• Insurance is an intangible product – just a promise by the insurer in exchange of a consideration that in the event of a loss that he will provide compensation to the insured.

• It is also a process through which informed individuals use to manage their risk exposures.
Key areas that consumer behaviour has influenced the insurance market

The most obvious among these customers are the people who actually buy or use insurance products.

• Competition
• Consumer awareness
• Customer expectation
Different consumer groups in the industry ...

In recognising the importance of the consumer there is need for him to be segmented and to aim at providing the right level of focus and support according to their current and future value to the company. This is about getting to know the customer, learning where what the customer wants and taking reasonable steps to ensure that they get it, provided it is cost-effective to do so.
Different consumer groups in the industry .... 2

• In relation to personal lines insurance it is possible to identify a number of customer groups, including:
  o Socially excluded – the UK Government’s Social Exclusion Unit website defines it as “what can happen when areas suffer from a combination of linked problems such as unemployment, poor skills, low incomes, poor housing, high crime environments, bad health and family breakdown”
  o The middle classes
  o High net worth clients
Characteristics of high net worth people

- A high level of disposable incomes and/or investments
- Live in high value properties in the country, with collections of art and antiques;
- Own stylish apartments in the city;
- Drive prestige cars;
- Wear expensive items of jewellery;
- Take regular holidays abroad.
Insurance needs of high network people

• A comprehensive household policy to cover their buildings, contents, fine arts and other special possessions.

• Typically, this will be extended to cover:
  o worldwide ‘all risks’ cover for contents and personal possessions;
  o Cover for second homes and overseas property;
  o Cover for outdoor items such as statutes and ornaments
  o Cover for guests personal effects up to an agreed limit
  o Annual multi-trip travel insurance
Identifying consumer needs

• An insurance salesperson who has invested time and resources in understanding a customer’s needs will find it easier to deliver the right insurance solution. This will enable them to highlight where they will add value, which cannot fail to strengthen customer acquisition and retention.

• The identification of customer needs requires consideration of the customers need for:
  o The product
  o The price of that product; and
  o The delivery of that product, i.e. the service.
Categorising consumer needs

• This can generally be grouped into:
  o Real needs – where the consumer recognises that a risk need exists which is capable of being reduced or eliminated through the purchase of insurance products. It may also be a recognised need for a particular service associated with an insurance product, such as a courtesy car in the event of a claim.
  o Perceived needs – where an insurer identifies an uninsured risk or an opportunity to provide a service exists, which has not yet been recognised by the customer.
When a consumer is lost

• One valuable but sometimes overlooked opportunity to identify consumer needs arises when a customer is lost. It is important to undertake research to ascertain why. Why was a customer dissatisfied? Was it, for example, the price of the product or a poor claims experience? Could this information be used to better identify customers needs for the future.
Ethics

Ethics, according to the Oxford Advanced Learners Dictionary, is moral principles that control or influences a person’s behaviour, ...a system of moral principles or rules of behaviour: a strongly defined defined ethics, etc.
Ethics means

- That a person conducts himself/herself in a way that is acceptable by the generality of people in a group.
- In other words, that which is ethically okay in a profession will be for the good and survival of each profession.
- Ethics goes with professionalism in careers. And the essence of application of ethical standards is to ensure the survival of the profession.
Ethics and the Nigerian insurance industry

- As we have earlier noted ethics is for the survival of the industry. This means that the Nigerian insurance industry cannot afford to ignore ethical issues affecting the operators and practitioners.

- Hence in 1991, the industry gave itself a **Code of Ethics and Practice for The Nigerian Insurance Industry**.
The Code ...1

• The industry Code says its preamble that “This Code is drawn up by the insurance industry pursuant to its policy of self-regulation’.

• A grasp of the first sentences of the different paragraphs of **General Rules** of the Code provides that:

  • The business of insurance is founded on the principle of utmost good faith.

  • Every insurance practitioner shall observe the general law of the land.
The Code ...2

- Every member shall always be honest in all his business and professional dealings and shall at all time, refrain from unethical, fraudulent and corrupt practices.

- A member shall not improperly ask for or accept any financial gain, property or inducement or benefits or advantages of any kind for himself on account of anything done or to be done by him in the normal discharge of his duties.
A member shall not demand or accept any bonus or commission or part of the profits, fees or remuneration belonging to another profession or body.

A member shall, at all times, should avoid being placed in a position of conflicting interest.

A member must, at all times, preserve impartiality, etc.
Conclusion

I agree with Ogala Osoka that “the standard training for ACII, B.Sc or any of the acceptable qualifications does not on its own guarantee a high standard of professionalism in insurance. Rather, well established ethics, with adequate enforcement mechanism, are the only way to maintain an acceptable professional identity”.

In this regard, integrity should be the key word in insurance practice, as Oprah Winfrey rightly observed “Real integrity is doing the right thing, knowing that nobody’s going to know whether you did it or not”.

Ethics no doubt will support consumer acceptance of insurance that will intend to sell to them.
Thank you for listening