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An Exploratory Research on Buying Behavior Model in Insurance Sector

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ABSTRACT The untapped Indian insurance market provides huge opportunity to the marketers. To harness this opportunity, marketers need to understand the buying behavior of insurance consumer. For this reason the study has undertaken to integrate the past models of consumer buying behavior with the changing insurance market. Findings shows that the established theories/models laid the corner stone in understanding consumer buying behavior, but linier in structure and needs modification as per the changing scenario. The study proposes the future researchers to develop and validate new models as per the changing scenario by considering multi-criteria decision approach. **Summary** By using exploratory research the study integrates established theories/models of consumer buying behavior with insurance market in the present context. The study proposes the future researchers to develop and validate new models as per the changing scenario by considering multi-criteria decision approach.

1.1 Introduction

Insurance industry is a market of contingent claims where the insured signs a formal written contract with a insurer, for a consideration called as “premium” which can be redeemed for money, if certain unforeseen events occur as per the contract (Arrow & Debreu, 1953, as cited in Kunreuther & Pauly, 2005). Insurance marketing comes under the services marketing domain which includes service production and service consumption. Service encounter is an interpersonal interaction between customers and service providers during service delivery process, as well as interaction with other customers (Surprenant & Solomon, 1987; Bitner, Booms, & Tetreault, 1990; Fan, 1999). Consumer behavior is the act of buying a certain product or service. The more holistic view reflects in the definition of Schiffman and Kanuk (2007)

“the behavior that consumers display in searching for, purchasing, using, evaluating, and disposing of products and services that they expect will satisfy their needs” (p.3).

Consumer decision making model refers to the different orientations and perspectives of consumer which impacts buying decision process. As per the Blackwell Handbook of Judgment and Decision Making, edited by Derek J. Koehler & Nigel Harvey (2004) consumer decision making is a continuum process and during this process preferences are often constructed (Bettman, 1979; Bettman, Luce, & Payne, 1998; Slovic, 1995). Even when choices are constructed, and hence contingent on properties of the task and context, consumers' choices are often adaptive and intelligent, if not always optimal (Payne, Bettman, & Johnson, 1993). While insurance purchase decisions have long been studied, we still do not know much about the subject matter. Individuals understand the need for life insurance, but find many behavioral-economic barriers to getting adequate coverage, including inertia, mental accounting, money illusion, anchoring and signaling (Belbase, Coe & Wu, 2015). The complexity of decision making depends upon the nature of the problem, availability of information, availability of choices, and type of object in consideration. It also depends upon time frame in consideration, level of involvement and emotions of the buyer. In such complexities it is essential to integrate the grounded theories of consumer decision making and insurance buying behavior in the present context. The next section discuss about the past models in brief.

1.2 Review of Studies

Nicholas Bernoulli, John von Neumann, and Oskar Morgenstern, have laid the corner stone of consumer decision models (Richarme, 2007, as cited in Bray, 2008). Bernoulli was the first person who provided a formal explanation of consumer decision-making. Later, Von Neumann and Morgenstern extended the theory which is called as *Utility Theory.* This early work approached the topic from an economic perspective, and focused solely on the act of purchase (Loudon and Della Bitta 1993) to satisfy self interest (Schiffman & Kanuk, 2007). But later on, different studies observed deviations from EUT and concluded that insurance decisions would not strictly stick to the predictions of EUT based models and provided consumer oriented models. Among those Nicosia (1966), Howard and Sheth (1969), Engel, Kollat, Blackwell (1973), Andreason (1965), Hansen (1972), and Markin (1974) are some of the known models in consumer decision (Firat, 1985).

Nicosia Model (1966)

Nicosia's model (1966) is credited as the first comprehensive model of buyer behavior. It consists of four 'areas'. In area 1, attributes of the company such as marketing strategy, marketing information, product quality, etc transferred into consumers' mind where consumers' attributes such as personality, involvement in social group, etc shapes the information and he develops a favorable attitude towards information search. In area 2 the consumer searches relevant information and evaluates those and makes a final purchase decision in area 3. In area 4 consumer evaluate his purchase decision and gets some purchase related experience which he carries to area 1 again. The Nicosia Model by and large identifies three stages in consumer buying behavior i.e. preferences, attitude and motivation. It is a milestone in consumer decision making model but it is linier to explain the complex insurance buying behavior.

Engel, Kollat, and Blackwell Model (1968)

Nicosia's model was adjusted by Engel, Kollat, and Blackwell in the late 1960s (Engel et al., 1968). It includes a partial decision-making situation. It is by and large similar with the procrastination behavior, where the decision may be postponed at any point of time, providing feedback for use as input for next time when a similar need is aroused. Milner & Rosenstreich (2013) found it relevant in the context of financial services, for example attending an investment seminar without necessarily having an intention to invest in the short term. The models' linear nature is a major source of criticism as it is recognized that the elements of the buyer decisions do not necessarily occur in a set sequence (Brinberg & Lutz, 1986, as cited in Milner & Rosenstreich, 2013). Another limitation of the model is its implicit assumption that consumers have the capacity to evaluate the alternatives and can make a rational judgment (Milner & Rosenstreich, 2013. Due to lack of proper knowledge and under-

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standing it becomes difficult for people to evaluate information regarding financial services.

Howard and Sheth Model (1969)

Howard and Sheth (1969) developed a model to explain the rationality of choice of the product by consumer under information constraints. The model analyses the external symptoms of behavior, reactions and thought process that cannot be directly observed. The model shows a flow of information which moves through four main components: 1) inputs (marketing and social stimuli), 2) perceptual constructs (attention and information search), 3) learning constructs (motives, choice criteria, brand comprehension, leading to an attitude, confidence, intention, and satisfaction), and 4) outputs (purchase, intention, attitude, brand comprehension and attention. A fifth element, exogenous variables (importance of the purchase; the consumer background, reference groups, personality traits; time available; and financial status) was included as an influence on the perceptual and learning constructs rather than being part of the information flow itself. The model certainly achieves a sense of the complexity of the process, with multiple variables with multiple relationships to internal processes and external triggers and information sources. Concepts such as attitude formation, predisposition and time were introduced as well as an overarching sense of perceptual constructs and learning constructs. Paradoxically, the complexity of the model is also one of its shortcomings. Evidence suggests that consumers do not always follow the entire path of the model, and the model is too complicated for routine purchases (Olshavsky & Granbois, 1979, as cited in Milner & Rosenstreich, 2013).

McCarthy, Perreault, and Quester Model (1997)

The McCarthy, Perreault, and Quester (1997) model is a modification of the Engel et al. model such as the concept of criteria for choice which is an important unpacking of the evaluation task. It does however display some of the weaknesses that are common to the models that preceded it, such as: depicting a linear process; depicting a limited and counter-intuitive influence of social and situational variables. It does not clearly indicate the manner in which psychological variables influence the process.

In a quest to understand more and more about the consumer decision making and its applicability in different sector researchers undertaken different studies between late 90s to till date. Most of the text books on consumer behavior (Schiffman & Kanuk, 1994:566-580; Solomon, 1996:268; Du Plessis et al, 1991:27; Foxall, 1983:75) explain the consumer decision making process in the five stage model of *problem recognition / pre-search stage, information search, alternative evaluation, choice, outcome evaluation* (Eramus, Boshoff & Rousseau, 2001). Though the models of consumer decision making developed in the 70s-90s got wide recognition but also faced several critics on different grounds which can be broadly categorized as: an assumption of rationality; a generalization of the decision-making process; concern about the detail included in consumer decision-making models as well as limitations as a result of a positivistic approach to the development of consumer decision-making models (Eramus, Boshoff & Rousseau, 2001).

While attempting to integrate those models of consumer decision making in current insurance market, the study found limited work during late 90s to till date to show a comprehensive picture of the subject matter. Some of the notable contributions as cited by Ulbinaite, Kucinskiene & Moullec (2014) are Risk-related psychological experiments of Shanteau, 1992; Tversky, Shafir, 1992a, 1992b; Specificities and complexity of insurance services from a consumer's point of view by Meidan, 1996; Gidhagen, 1998, 2001; Kindurys, 2008 and Insurance service consumer behavior, dependent on consumers' attitude to risk and their inclination to take and bear it of 1992; Baker, 1996; Cutler, Zeckhauser, 1998; De Meza, Webb, 2001; Finkelstein, Poterba, 2004; Chiaporri, Jullien, Salanie, Salanie, 2006; Finkelstein, McGarry, 2006; Lezgovko, Lastauskas, 2008.

Apart from this positive theory of demand and supply of insurance by Kunreuther & Pauly (2005), Milner & Rosenstreich (2013) model of consumers' financial decision making, Ulbinaite, Kucinskiene & Moullec (2014) model of insurance consumer decision making based on life quality, exposure to risks, insurance culture and family nest, perception of need for security, affordability, insurance service selection complexity, insurance service quality and employees' service performance which explains the insurance consumer decision making.

CHANGING SCENARIO OF INSURANCE BUYING BEHAVIOR

The buying process can be simple or complex, depending upon the kind of product or service. For instance, for purchasing convenience goods, consumer directly moves to the purchase process after the need recognition without much search for information, whereas purchasing insurance involves a complex process. It starts with problem recognition/need analysis. The main criteria which involves in problem recognition are end goal, sub goals, product knowledge and simple rules or heuristics. On this basis, needs which arouse can be a felt, normative, expressed, anticipated or critical-incident need. It is important for marketers to understand consumers' problem recognition stage so that they can influence it. Often consumers' initial problem representations are not clear or well developed. Nor are they fixed. In fact, its components often changes during the decision-making process. Marketers try to influence consumers' represent or frame. In case of insurance a salespeople or advertisement may appeal about an end goals i.e. buy life insurance to assure your children's education and can influence the behavior. Prior knowledge about the product based on consumers' past experience and memory influences need identification. In this process, consumers' emotion also plays a significant role. The worry about future risks, regret of past loss, financial emergency, etc. matters to consumer for identifying a need to purchase insurance. After the needs assessment, consumer collects required information. As insurance is a unsought product, consumer has limited information regarding kind of products available. It becomes more difficult with availability of many companies. Consumer uses different sources to collect such information from financial advisor to friends, family, colleagues, agents and online reviews. In insurance market the role of opinion leader is crucial. The marketers need to create a network of opinion leaders in small localities and equip them with necessary information to carry it forward. After getting desired information the consumer evaluates it by applying his cognition or mental thinking. At this stage perception of brand image, service quality, etc. affects the evaluation. In the evaluation process consumer may not go for maximizing his utility, rather evaluates as per his convenience and predetermined bias or a consideration set. Here companies like *PolicyBazar.Com* found an opportunity to combine the information search and evaluation process, understanding the consumers' shift towards online search and offered a solution. In the next stage, consumer chooses from whom to purchase. After that consumer either goes for an immediate purchase or shows a procrastination behavior by hanging the decision. In such a undecided state the marketer need to approach the consumer with a great caution. The *new gen* consumer wants limited intervention in their decision making process. The marketer need to understand this phenomenon and should assist the consumer, if so desired. In the final stage consumer compares the expected benefits with actual. It determines his level of satisfaction or dissatisfaction followed by set of behaviors as re-using and suggesting others to purchase or not to.

CONCLUSION

Different theories of consumer buying behavior have evolved and continuously developed in the past. At present context also it explains the generic decision making pattern of the consumer. But, it needs to be empirically tested in different market conditions and consumers to generalize the models. The real market and the consumer are changing even at a faster rate. Particularly in the insurance market, the risk scenario, socio-economic and demographic characteristic and the consumers are becoming diverse. The

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academicians, researchers and marketers need to accelerate their understanding not only to provide and validate current market situation but also to explore the future models by considering multi-criteria decision approach which will enable to provide social security to a mass.

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