EXPLORING CONSUMER OPPORTUNISM CONUNDRUM IN THE INSURANCE INDUSTRY: THE ROLE OF MARKETING

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Abstracts:

Drawing from the extant literature, this paper explores the prevalent consumer opportunism in the insurance transactions, its links to consumers' perception, and the relevance of marketing strategies in curbing the menace. It shows that insurance opportunism could be perpetrated by any party in the insurance transaction system and at any stage of the process involved. Among factors identified as prompting this conundrum are economic motive, resentment towards the insurance companies, laxity in the application processing/asymmetric information, and insiders' collaborations. Nonetheless, the paper suggests that strong commitment of insurance marketers to creating and delivering value to the customers more robustly through a proactive and all-embracing implementation of marketing strategies vis-à-vis relationship marketing could significantly enhance consumers' positive perception of insurance business and consequently result in a healthier insurance industry.

Keywords: Society, Insurance, Consumer opportunism, Marketing strategies, Ethics

INTRODUCTION

Evidently, the marketing environment in which businesses operate is becoming increasingly complex and competitive. Hence, exploring how to keep delighting their customers better than competitors becomes more compelling. Nevertheless, irrespective of the nature of such business - whether for physical products or services – achieving this now constitutes a major challenge for businesses. It is also noteworthy that this challenge appears more knotty when considered from the context of services marketing such as in hospitality and insurance businesses as they are essentially intangible (Imrie, 2013; Gallepo *et al.,* 2013). They cannot be felt, touched, or tasted as could possibly be done for physical products. This explains why Hollensen (2010: p.91) argues that 'a service is a complicated phenomenon'. Accordingly, this reflects in the consumers' perception, attitudes, and behaviour in respect of transactions conducted within this context. Therefore, marketers are increasingly challenged to devise strategic moves that could be employed towards performing effectively in marketing services such as insurance.

Meanwhile the image of insurance and its practitioners continues to generate ceaseless attention of societal members. In some cases, it has not been positively portrayed by consumers, and researchers have underscored consumers' perception of this business as one of the key factors responsible for the aversion. Some have suggested the ignorance of the workings of the insurance mechanisms as a likely factor responsible for this. Also, the inherent asymmetric information between the insured and insurer has not in any way mitigated the perception quandary but added to the complexity. Meanwhile, the notoriety of asymmetric information in various business transactions has been widely acknowledged (Kulkarni, 2000; Ting *et al.,* 2007; Shen *et al.,* 2011). Consequently, insurance customers have the penchant to cheat the system by either masking their true risk-type while applying for insurance *ex ante* (Alary and Besfamille, 2001) or by inflating or fabricating their losses *ex-post* to gain undue payout postcontractual (Schiller, 2003). For instance, it has been reported that around £730m worth of claims fraud was detected in 2008 which represents a 30% increase when compared to the figure in the previous year which was £560m (ABI, 2010). It is therefore not surprising that the literature is replete with viewpoints on consumer ethics from many perspectives towards providing directions on how to curb the menace (Dean 2004; Brinkmann and Lentz, 2006). However, as a way of contributing to the discourse and updating the literature, this paper approaches this quandary from a different perspective by conceptually exploring the role of marketing towards tilting the negative perceptions of their customers in favour of better consumer ethics.

THEORETICAL BACKGROUND

Insurance Opportunism: Theoretical Underpinning

The *Encarta Dictionary* (n.d.) defines opportunist as "unprincipled resourceful person" or "somebody who takes advantage of something, especially somebody who does so in a devious, unscrupulous, or unprincipled way". Hence, opportunism may be defined simply as 'seeking gain for oneself at the expense of others' (Das, 2007; p.745). Viewing this in the context of networking, Melé (2010) defines it as acting for one's own self-interest (or for a third party interest) with damage to the network. Apparently, there is a point of convergence between these views especially in relation to the purpose and impact of opportunism. It has also been shown that partners in international market alliances or joint venture might also engage in opportunism by withholding or distorting information, shirking or failing to fulfil promises or the associated obligations (Li, 2008). In insurance parlance, this term is used in relation to the problem of asymmetric information where one person seizes the opportunity of the presence of private information to lie prior to a contract taking place (*precontractual opportunism—adverse selection*). Its other form is in cases whereby the presence of some unobservable (unverifiable) action provides people with an opportunity to cheat after the deal is signed (*postcontractual opportunism—moral hazard*) (Molho, 1997). Williamson (1985) contends that while some people act opportunistically, others do not. However, since transacting parties cannot readily identify and screen out the opportunists, they have to build their relationship on the presumption that opportunism is possible and protect themselves accordingly. Therefore, Barney & Ouchi (1986), Shapiro (1987), and Williamson (1985) maintain that given the ever-present risk of opportunism, transacting parties will insure against this risk by structuring into a relationship a variety of formal contractual safeguards, such as guarantees, insurance mechanisms, laws, and organisational hierarchy. This view is consistent with another claim which stresses that taking risk is central to modernity (Pelzer, 2009).

Quoting Nooteboom *et al.* (1997), Li (2008) shows that exchange partners' opportunistic behaviours are prompted by three factors which are the room for opportunistic behaviours, the incentives for the partners in the relationship to engage in opportunism, and partners' propensity for opportunism. Hence, the role of asymmetric information between the insured and the insurer could be very significant towards explaining the prevalence of opportunism in the insurance industry. It has been noted that this can result in producer opportunism through both adverse selection and moral hazard (Walters *et al*., 2008). While the former occurs when "hidden information" exists, the latter occurs if producers take "hidden action" (Arrow 1984). Generally, opportunistic behaviour is labelled as adverse selection if the producer (insured) uses asymmetric information to their advantage in making the insurance decision and it is regarded as moral hazard when the producer (insured) changes behaviour because they have insurance. Nevertheless, it is often difficult to distinguish empirically between the two (Quiggin *et al.,* 1993), and the identified type of asymmetric information is not specified. Instead, what is examined is whether evidence exists that asymmetric information propels insurance customer to misrepresent his true risk-type or inflate the cost of his loss while reporting an accident. Indeed, the foregoing further emphasises the scale of challenges confronting insurance marketers.

Insurance Fraud: A Conceptual Overview and Taxonomies

Clearly, insurance fraud is closely linked to consumer opportunism. However, there are disagreements within the industry as to the best working definition of insurance fraud (Doig *et al.,* 1999) which makes the task of tackling it more difficult because it is not clear at what level to focus anti-fraud measures (Morley *et al.*, 2006). However, owing to its wide-ranging nature, the definition of insurance fraud stated by the world insurance body—International Association of Insurance Supervisors (IAIS, 2007) proves useful. According to this body, fraud in the insurance market is defined as an act or omission intended to gain dishonest advantage for the fraudster or for the purpose of other parties. This may, for example be achieved by the following: misappropriation of assets and/or insider trading; deliberate misrepresentation, suppression or non-disclosure of one or more material facts relevant to a financial decision or transaction; and/or abuse of responsibility, a position of trust, or a fiduciary relationship (IAIS, 2007). Based on parties involved, the following four categories of fraud are defined: internal fraud, policyholder fraud and claims fraud, intermediary fraud, and insurer fraud (IAIS, 2007). According to this perspective, internal fraud is that committed against the insurer by an employee, a manager or a board member on his/her own or in collusion with others who are either internal or external to the insurer while policy holder fraud and claims fraud is that perpetrated against the insurer in the purchase or execution of an insurance product by obtaining wrongful coverage payment. Unlike these types of fraud, intermediary fraud is that carried out by intermediaries against the insurer or policyholders. As stated by Todd *et al*. (2000), insurer fraud is that perpetrated by the insurer against the insured through policy churning or mis-selling. Evidently, insurance opportunism could be perpetrated by any party in the insurance transaction system.

Another taxonomy of opportunism is offered by Viaene and Dedene (2004) in which three typologies of insurance fraud are delineated. These are: Internal *vs*. External, Underwriting *vs*. Claim, and Soft *vs*. Hard. The Internal *vs*. External dichotomy describes the fraud perpetrated by insiders of the insurance industry such as insurers, agents, brokers, managers and the other insurance employees as against those perpetrated by outsiders such as applicants, policyholders and claimants alone or sometimes, in collusion with insiders. The Underwriting vs. Claim scenario describes the major stages when frauds are perpetrated against the insurance companies by applicants (new business), policyholders (renewal) and claimants (claim). Basically, these could occur when a new applicant is filling the proposal form or while renewing his policy (herein) called application fraud in order to obtain lower premium (herein) called premium fraud. Unlike these two, the third typology of insurance fraud (Soft vs Hard) describes frauds in their magnitude. Frauds that are basically opportunistic in nature and perpetrated by normally honest people by padding or build-up are qualified as "soft" whereas those that are carefully premeditated and systematically executed to rip off insurers are qualified as "hard". The former tends to involve smaller amount in value as against the latter which may involve large sum of money that could even gain headline in the news. Again, this typology indicates that while any party in the insurance transaction system could engage in opportunism, it could also take place at any of the stages in the contractual process.

As shown in the relevant literature, the role of asymmetric information among parties in the insurance contract cannot be trivialized, yet certain questions still deserve closer scrutiny - how could marketers of insurance products clarify and categorise information? How do consumers' perceive insurance services? And what marketing strategies could be adopted to mitigate consumer opportunism in the insurance sector? Certainly, these questions warrant a meticulous research attention as such approach has the potential to enrich the existing depth of understanding in the relevant literature.

Consumers' Perceptions Of Insurance Sevices: The Link To Opportunism

Consumers' perception can be defined as the process by which consumers select, organise, and interpret various stimuli into a meaningful and coherent picture (Lamb, *et al.,* 2010). It constitutes one of the critical determinants of customer satisfaction (Solomon, *et al*., 2013; Zhan and He, 2012; Desai and Trivedi, 2014). It is not surprising that Czinkota *et. al*. (2000) claim that 'the objective reality of product matters little: what matters is the consumer's perception of a product or a brand. Therefore, consumers' perception of an offering plays vital roles in the associated purchase decisions. A review of the insurance fraud literature reveals relative little academic attention on perceptions of fraud by insurance customers (Dean, 2004). Nonetheless, the theoretical view of attitudes towards compliance which are dependent upon perceptions of the institution in question has led to more specific models of the factors influencing these perceptions (Tennyson, 1997). One prominent theory is that institutional fairness does matter (Cialdini, 1989; Smith, 1992). Based on this perspective, perceptions of institutional fairness may influence individual's assessment of institutional legitimacy, and perceptions of institutional legitimacy in turn influence attitudes toward honest dealings with the institution (Cialdini, 1989). Evidence suggests that perceptions of procedural fairness and distributional fairness are important in influencing attitudes toward compliance or cooperation with authority (Smith, 1992). Procedural fairness turns on perceptions of the equity and consistency of the process by which outcomes are determined. Distributional fairness centers on the equity of the outcomes themselves, especially when compared across different participants. So, the core issue revolves around how consumers perceive insurance business as tow whether it fair, legitimate, or benefitial.

From economic perspective, Tennyson (1997) found that: (1) an individual's attitude would be influenced by the ethical or social environment for fraud, and (2) tolerant attitudes toward fraud would be expressed more often by individuals who have negative perceptions of insurance institutions. This viewpoint appears logical in terms of relationship between attitude and behaviour especially if considered in relation to the seminal work of Fishbein and Ajzen (1975), Ajzen and Fishbein (1980) on theory of reasoned action; and Ajzen (1985) (1991) - theory of planned behaviour (TPB). In a later study, Tennyson and Salsas-Forn (2002) found a link between claims experience and lower fraud tolerance. According to him, recent claimants have more positive attitudes towards insurance industry. Also, the study shows further that individuals with positive views of the insurance industry are significantly less likely to find insurance fraud acceptable than those with neutral or negative views.

Niemi's (1995) criminological approach to the study of perception in insurance business also reveals quite interesting findings which include the following. Firstly, customers regard insurance companies as alien, large and impersonal entities worsened by experience of the haphazard nature of the control and settlement of claim. Secondly, recognition of the purpose of insurance and of the limits of norms have become ambiguous as the sense of security which insurance brings is no longer sufficient value for the premiums that have been paid. This point is also corroborated by the report which indicates that considerable number of those who perpetrate insurance fraud ivented claims to get back premiums they had paid over time (ABI, 2003; 2005; 2010). Thirdly, customers blame insurance companies for haggling over payment of full claims on dubious grounds. Also, marketing activities involved in insurance products have failed to check whether the object being insured actually exists and insurers' bid to avoid the reputation of being a stingy and suspicious contracting partner result in laxity of control. Supporting these findings is a survey of the Association of British

Insurers (ABI, 2001) which shows that while 55% of the people view taking too much change from shop as either acceptable or borderline behaviour; 40% see exaggerating an insurance claim as acceptable or borderline, and 29% feel the same about making up an insurance claim. More recently, ABI (2010) reports that two fifths of people perceive exaggeration of a calim as acceptable while 5% see the complete invention of a claim as acceptable. These figures appear striking and are pointers to the scale of challenges prevalent in the system, especially as it has been argued that the more an individual endorses a tactic, the greater the likelihood that the individual will include it in his or her negotation repertoire (Fulmer *et al.,* 2008). Meanwhile, this paper attempts to address the question of: what is the postition of marketing in this conundrum? This question and the associated issues have not been adequately unpacked in the extant literature, hence, it will be significantly benefital to explore this.

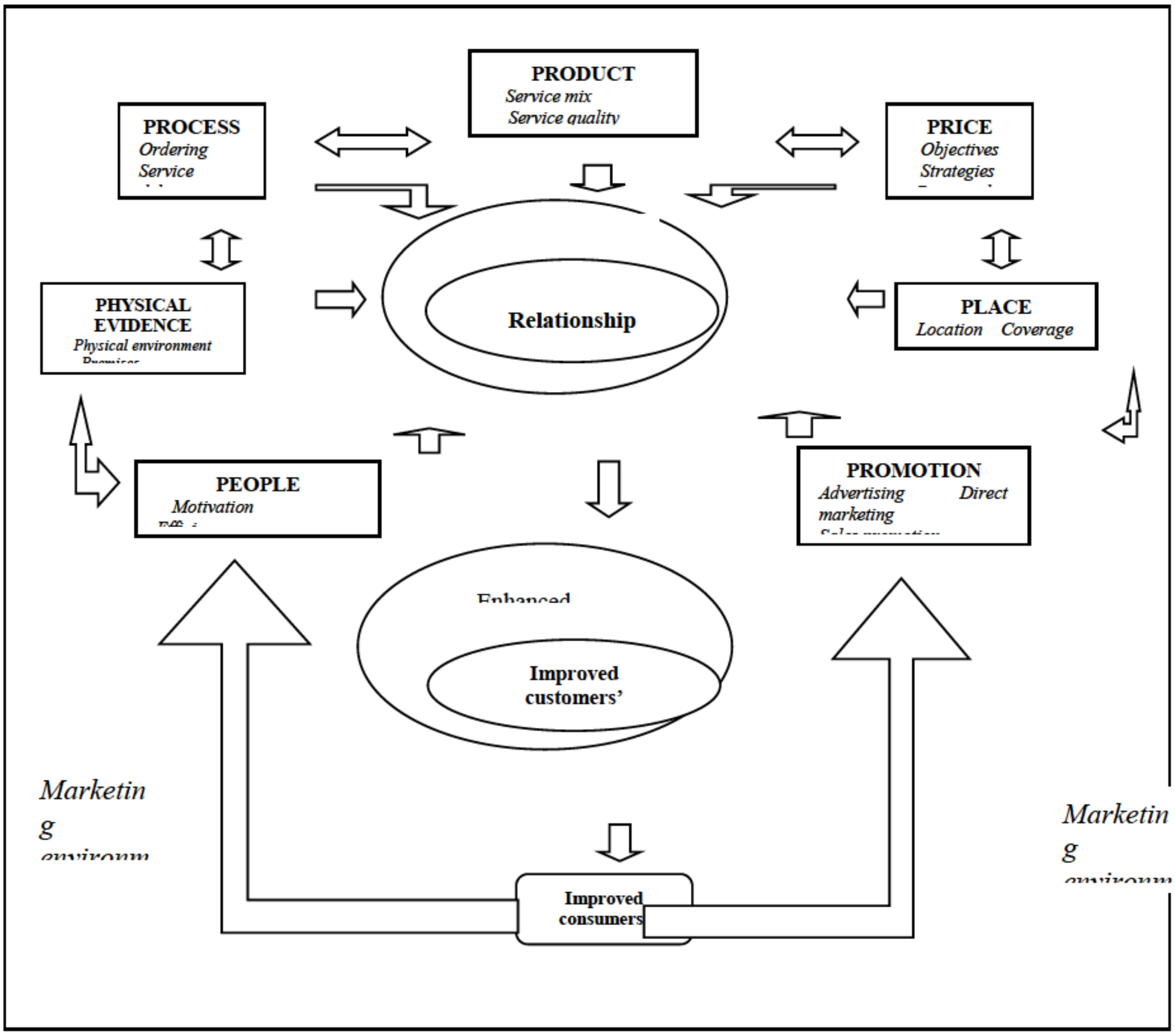
Marketing Strategies and Consumer Opportunism Control

The overarching issue in a firm's marketing strategy is articulating which market to target and how to best manage resources to achieve the applicable marketing objectives (Koksal and Ozgul, 2007; Dibb and Simkin, 2009). Quoting Varadarajan and Clark (1994), Slater *et al.* (2010: 472) state that 'it represents the set of integrated decisions via which a business aims to achieve its marketing objectives and meet the value requirements of the customers in its target market/markets'. Clearly, this standpoint is consistent with another which explains it as deciding which market to target and developing the marketing mix strategies (Solomon, *et al.*, 2013). Hence, it is an invaluable tool by which marketers can confront their challenges. Indeed, the challenges facing service marketers such as operators in hospitality, banking and insurance industries are considerable. This is because of the specific characteristics of services which are intangibility, inseparability, heterogeneity, perishability

(Zeithaml *et al.,* 1985; Nicoulaud, 1989, Edvardsson *et al*. 2005). Accordingly, the existing strategies adopted for physical products cannot adequately address transaction involving services such as insurance products. It is therefore not surprising that the significance of handling services effectively has been emphasised as the new dominant logic of marketing (Vargo and Lusch, 2004). In views closely connected to this, the literature stress that marketing strategies for service marketing will involved effectively handling of the 7ps which are product, price, place, promotion, people, physical evidence, and the process (Boom and Bitner, 1981; Pheng and Ming, 1997; Goldsmith, 1999; Solomon, *et al.,* 2013), and this could be the difference between success and failure in the marketplace.

It is noteworthy that the core focus in contemporary marketing revolves around value orientation. Sustainable successes of an organisation are inextricably linked to offering customers the best value, and this may be very dynamic with time and circumstances (Day, 2003; Lindgreen *et al*. 2012). Meanwhile, while the discussion of the marketing strategies and marketing mix elements is well acknowledged in the marketing literature (Slater *et al*., 2010; Arons, *et al.,* 2014), we suggest in this paper that it could be channelled differently and more robustly – for control of consumer opportunism in the insurance business. This is depicted in Figure 1 below entitled Value Enhancing Holistic Opportunism Control (VEHOC)

Figure 1: Value Enhancing Holistic Opportunism Control (VEHOC)



As shown in the figure, insurance firms could be able to control consumer opportunism by managing each of the areas of the interrelated marketing mix elements associated with services more effectively. This should also be linked to a very sound practice of relationship marketing as anchored by trust and commitment to customer value. This approach has the potential to produce a holistic effect that could lead to enhanced customer value, satisfaction, positive word-of-mouth communications, consumers' positive perception of the business, and consequently a healthier insurance industry. As the insurance organisations do not operate in a vacuum, the figure acknowledges the impact of environmental factors such as government regulations of insurance marketing activities, economic factors, technological factors, and several others.

DISCUSSION

Drawing from the extant literature, this paper identifies a number of factors that tends to prompt consumers of insurance services to be cynically opportunistic. These are economic motives, resentment about the conduct of some insurance firms, asymmetric information, and insider collaborations (see for example, Arrow, 1984; Todd, 2000; IAIS, 2007). It also becomes clear that some consumers do not know how insurance works, hence perceive it as unfair (Niemi, 1995). Meanwhile, the article shows the significant relevance of relationship marketing and the effective management of the marketing programmes, and being customer value focused as shown in Figure 1. Essentially, relationship marketing which is widely acknowledged in service marketing literature (Grönroos, 1993; Caceres and Paparoidamis, 2007), emphasises a close long-term relationship between various participants constituting the network involved in exchanging something of value (total marketing process) (Aijo, 1996). Apparently, trust between the parties and their commitment to the transactions/relationships will play key roles in the system.

In this context, the product in the mix referred to the marketing offerings presented to the target market for attention, and acquisition to satisfy the identified needs. Examples include insurance cover against fire, automobile risks, and travel risks to mention but few, and how branding and service quality are effectively managed to delight the insurance services customers. Usually, pricing strategies are expected to be chosen to be in tandem with the pricing objectives (Kotler and Armstrong, 2014). This could be effectively managed with due consideration given to customers' perceived value. Unlike in some other services, in insurance, the actual cost of an individual sale may not be known at the point of sale of the contract, and it may be thousands of times higher than the premium. Hence, pricing in insurance is a complex area and handling it with utmost carefulness such that provides value to the customers could prove very beneficial. This approach is expected to encapsulate providing customers with greater no-claim discounts as recommended by respondents in the report of the study of ABI (2010). Following the value-enhancing postulation, it would be relevant to design and apply this incentive based on what each consumer segment values. Closely related to this is the need to satisfy the insurance customers through various means of making insurance services available to them – ‘place’. Location of the business, the scope of coverage, and activities of insurance intermediaries could be typified within this context. Furthermore, the intermediaries in insurance business which include direct writers, exclusive agents, independent agents, and brokers (Colenutt, 1979; Eckardt, 2002; Etgar, 1976; Kim *et al.,* 1996; Venezia *et al.,* 2006) could use their strategic position in the system to satisfy both the client and the insurer by bridging information gap that customers exploit to mask the true risk-type while applying for cover and when reporting losses. Through this, they will be contributing to the system by providing customers with possession and time utilities.

The promotion elements cover activities which insurance firms engage in to communicate their offerings to the target audience in favourable terms. Very common tools often used for this purpose are shown in Figure 1 above as Advertising, Sales promotions, Personal selling, PR and Publicity, Sponsorship, Direct marketing, and Social media. A rich body of literature suggests that marketing communications play very crucial role in how marketers deliver value to their customers (Blattberg and Neslin, 1990; d’Astous and Landreville, 2003; Ndubisi and Moi, 2006; Gbadamosi, 2010; Del Pelsmeacker *et al,* 2010). Thus, from a more focused perspective, several combinations of these tools could be used to effectively communicate with the various insurance customer and prospective customers not only to clarify information, but also to contribute in delivering value to the customers in all ramifications in regard to services being provided.

Evidently, marketing strategies for services significantly emphasize the need for effective management of multiple elements beyond the 4ps. These cover the extended marketing mix elements - people, process, and physical evidence. For example, it is imperative to explore questions like. How qualified, happy, motivated and friendly are the staff members of insurance firms to customers? How easy is the process involved in the service being provided such as claim processing, and what means are being put in place to eliminate or at least minimize the stress involved in getting people served? And, what and how good are the elements that constitute the physical evidence that supports the suitability or superiority of the services being rendered such as the premises, furnishing, and colour? (Gbadamosi, 2012). From a different perspective, Slater *et al.* (2010) summarise these into three following key questions. Who are our target customers and what are their needs? What product/service offerings will create superior value fort the customers in our target market? How can we leverage our organizational architecture to implement the strategy? Ultimately, the focus should be about creating, delivering, and communicating value to the customer in a more precise and robust manner taking the environmental forces into consideration.

IMPLICATIONS OF THE STUDY

The implications of this article could be highlighted from two main perspectives. Theoretically, it extends the existing understanding in the service marketing literature and contributes to the on-going discourse on the need for more efficiency and effectiveness in the industry. Hence, it supplements the available information in the literature emphasising customer value but with specific focus on controlling consumer opportunism thereby fostering a better ethical culture in the insurance industry. From the managerial standpoint, it suggests the need for insurance firms to work on improving their service offerings via the holistic and effective management of the extended marketing-mix elements and relationship marketing. This could positively influence the customers' perception, attitude and behaviour in respect of this business. For example, the processing of customers' claims could be improved significantly to enrich their experience about the business such that could be shared to others in the form of word-of-mouth communications. This could significantly change the negative perception that some consumers have about insurance business.

CONCLUSION

This paper explores consumer opportunism in insurance transactions in relation to how consumers perceive the industry and the associated offerings, and the mediating role of marketing strategies in curbing the menace. A number of factors which includes consumers' negative perception of insurance business prompts this cynical opportunistic behaviour in the industry. Hence, it is one of the major challenges confronting the industry as the enigma continues to claim millions of pounds from the system every year. Therefore, it is concluded in this paper that insurance marketers could be able to tilt the negative perception of customers of insurance services in the favour of better ethics. This will entail engaging in a thorough overhaul of their approach to managing the interacting marketing-mix elements and relationship marketing as a system. Specifically, the paper suggests that these elements should be meticulously linked in an optimum and customer-driven approach. This should be done such that each will contribute its parts robustly towards delighting the customers and enhancing their value gained in their various transactions. This approach is expected to ultimately result in stronger customer-firm relationships, mitigate opportunism, boost the firms' profitability, and consequently result in an industry characterised with a sound ethical culture in all ramifications.

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