



Emerging Markets Queries in Finance and Business

Insurances and consumer perception in the Romanian insurance market

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Abstract

Consumer behavior remains a debated area in the economic fields due to its particularities that are connected to the way information is presented or to the characteristics of the market. Insurance market is a different market that impose a different perception and various factors that influence the insurance acquisition. Uncertainty can be considered a key element of selling insurance, for the event which is the subject of the insurance contract may occur or not an event is possible, and uncertain future. The need for security is also an uncertain factors influencing this decision entailing particular due to the intangibility and lack of transparency. Also Romanian clients have different particularities due to the fact that their income are low and concentrate only on necessary goods. The impact of the crisis still has repercussions on the perception of the Romanian buyer.

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1. Introduction

Romanian consumer behaviour is difficult to treat due the fact that income, education field and psychological factors trigger the purchasing decisions. Romanian have the proclivity to choose goods that satisfy the immediate needs that is why selling insurance on a Romanian market can be a challenge. Romanian consumer is more careful with the budget available because has limited his budge to the minimum necessary and seeks better prices in several stores before he buys what he wants. Romanians no longer dive before

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shopping. According to the survey, two-thirds of buyers limit to a strictly necessary. Over 85 percent of people say they feel the price increases, especially in food and, in this context, they prefer to go to the store only once a week for supplies. Romania's shift from centralized economy to a market-oriented economy occurred suddenly, in the absence of a coherent program, of some specific institutions and a proper legal framework. Under these circumstances, the promoted strategies and programs have not always been the most efficient. Therefore, during those times of search for strategic solutions, the economy of the country recorded successive economic growths and declines that affected the consumer behaviour making it more conscious. Consequently, with the beginning of transition to market economy, the volume of production, of investments and exports has strongly reduced.

During the 18 years of transition, two major aspects conditioned and supported each other: economic growth and modernization process of organisational consumer's behaviour. But we have to take into consideration the fact that Romanian economy is far from being functional as compared to the economies of Western developed countries or to the level of insurance subscribing that is higher in European countries. Moreover the buyers' behaviour is far from being completely adequate to the conditions of a competition specific to competitive economies. But there's already a significant percentage of managers who understood the importance of input procurement process for the profitability and image of their organizations. More and more managers understand more and more completely the adequate behaviour on a free market in order to acquire competition advantages. The *insurance demand* on the Romanian market does not have a uniform character, neither regarding the types of insurance in demand, nor concerning geographical distribution; it is focused on geographical areas with a high economic potential and on the above-average income population. The fact that the Romanian insurance market is an expanding one is proved by the favourable evolution of some indicators, such as: the degree of insurance penetration in the economy and the insurance density. The insurance penetration in the economy has recorded a slow growth. If in 1996, the degree of insurance penetration in the economy was of 0.51%, in 2002 the indicator exceeds the 1% level. In 2009, the insurance penetration in the economy was *calculated as being the gross written premiums from direct insurance-to-GDP ratio* and it was of 1.77%. Although recording an increase compared to the previous years, the insurance penetration in the economy stays at a low level compared to values recorded in Central and Eastern European states (between 3 and 5%) or to the average recorded in developed countries in the European Union, of over 8%.

The research on the behaviour of the East European consumer, including the one from Romania, is an on-going activity, but a very difficult one at the same time because, as Professor Richard Lynde once said: "the Eastern buyer is not familiar with the choosing process, is ignorant and in some cases reticent in this process."

On the one hand, regarding the middle and upper income segments, the effects of the crisis are felt much more on emotional level. The changes in the buying behaviour are not major yet and not strongly perceivable in concrete terms. Romanians are much more careful, aware, prepared to take measures. On the other hand, concerning the middle to low income segments, the crisis is quite strongly felt, including in the family budget, inducing major changes in the buying and consumption behaviour. Their frame of mind could be described as including fear, insecurity, anxiety, stress, powerlessness

The way Romanians experience and perceive the effects of the crisis is strongly influenced by the line of business, the income level and age.

Romanians with medium-high and high income feel the crisis more on emotional level - "on the lookout", more mindful of what happens with their money - rather than in their consumption behaviour, while the medium to low income segment was visibly affected by the crisis, which has reduced their financial stability and the comfort of everyday life. A significant part of the working people had their financial situation affected by the crisis, primarily as a result of a drop in additional income (bonuses, commissions etc.) and secondarily due to delays in salary payments. The consumers' attitude regarding the evolution of the crisis vacillates between uncertainty and scepticism.

Romanians stick to buying only the necessary products. Consumers would be tempted to try newly launched products. On the other hand, as people have become more price sensitive and more open to promotions, a new product at an attractive price may become a tempting option especially for the medium to

low segment.

It is understood that on the insurance market, due to its peculiarities, consumer behaviour will support new influences decision-making issues directly related to risk and uncertainty and the emergence of post-purchase dissonance, with a much higher probability of occurrence in this area. Since insurance is an abstract product that addresses to a doubtful need like security, the role of perception in delivering insurance decision is very important. As mentioned, a very important feature of the insurance market is its opacity, insurance product, turn the product less transparent since the formation of a correct image on it takes place under conditions other than those applying to the tangible products.

We're talking about a service whose presentation depends on the information provided by insurance agents and consumer psychological boundaries. Unlike other products, when an advertisement is made to an insurance, consumer perception and mental representation arising by cognitive filters play an important role because, in the absence of real material support, the only concrete way to materialize insurance services is information and communications related to it.

Uncertainty can be considered a key element of selling insurance, for the event which is the subject of the insurance contract may occur or not an event is possible, and uncertain future. The need for security is also uncertain factors influencing this decision entailing particular due to the intangibility and lack of transparency. The "materialization" of the offer and the specific aspects of insurance are outlined by brand, price, ambiance, and staff communications about the product. As we shall see, is largely emotional factor in choosing insurance, which leads to some deviations from standard economic theory that individuals are rational economic agents consider taking the best decisions and who are generally risk averse. However, most often due to intangibility bid to reach a higher risk perception, individuals are dealing with probabilities greater than certain events or those with small probabilities as impossible to produce.

Perception is influenced by several sequential factors. *Exposure* involves the extent to which the individual encounter a stimulus.

Exposure is not sufficient to impact the individual—at least not based on a single trial (certain advertisements, or commercial exposures are based on extensive repetition rather than much conscious attention). In order for stimuli to be consciously processed, *attention* is needed. Attention is actually a matter of degree even when attention is low, it may be instantly escalated, for example, if an advertisement for a product in which we are interested comes on. Several factors influence the extent to which stimuli can be noticed. One obvious issue is *relevance*.

Consumers, having the opportunity to choose, are also more likely to attend to *pleasant* stimuli, on the other hand unpleasant stimuli are also likely to get attention thus, and many very irritating advertisements are remarkably effective. One of the most important factors is repetition. Consumers often do not give much attention to a stimuli—particularly a low priority one such as an advertisement—at any one time, but if it is seen over and over again, the cumulative impact will be greater. Surprising stimuli[†] are likely to get more attention due to the fact that survival instinct requires us to give more attention to something unknown that may require action. A greater contrast (difference between the stimulus and its surroundings) as well as greater prominence also tend to increase likelihood of processing.

Selective perception occurs when a person is paying attention only to information they have interest in. For example, when looking for a new car, the consumer may pay more attention to car ads than when this is not in the horizon. Some consumers are put off by perceived *risk*. Consumers will tend to change their behavior through *learning*, they will avoid the places they have found to be very expensive and will settle on brands that best meet their tastes that leading to the segmentation of consumers on the *values* they hold.

Study case

The questionnaire aimed at recording characteristics and classification of insurance agents that the consumer who has held, holds or will hold an insurance policy, and obtaining a representative sample for the main types of insurance. The sample was made from 100 students from „ Nicolae Titulescu” University. Sample structure according to the classification information were:

1. When asked "What is your age? ", distribution of responses was:

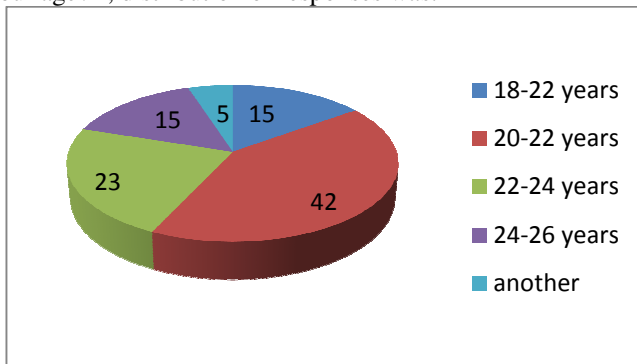


Fig 1 Age structure

Most respondents had between 20 and 22 years (42%), 15% of them between 18 and 20 years, 23% of them between 22 and 24 years, 15% of respondents between 24 and 26 years and 5% of them fall into another age.

2. When asked "What is your gender? "Distribution of responses was:

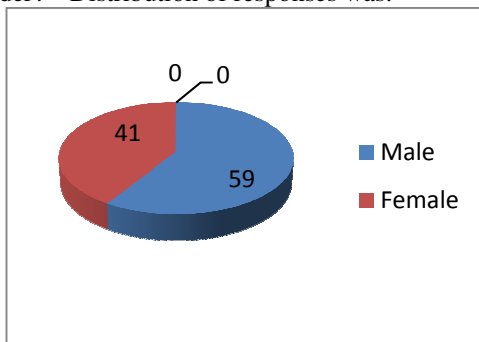


Fig 2 Students gender structure in Romania

It can be seen that 59% of respondents are male and the remaining 41% are female. In fact, the type of insurance taken out, we see the second part of the survey report does not create significant differences in terms of consumer preferences on the possession of an insurance policy.

3. When asked "Are you risk averse or prefer risky situations?" The distribution of responses is:

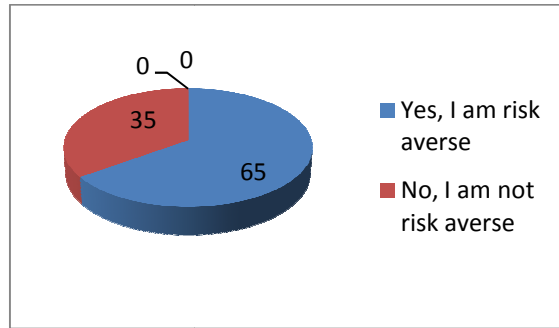


Fig 3 Students risk aversion

From the answers we can see that the respondents 65% of them prefer risk, and 35% prefer risky situations.

4. When asked "Your income is between ...?"The distribution of respondents was as follows:

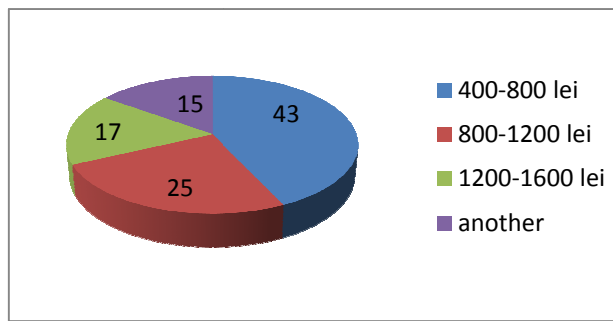


Fig 4 Income distribution

5. When asked "What are the main reasons you purchase an insurance policy?", Distribution of responses was as follows:

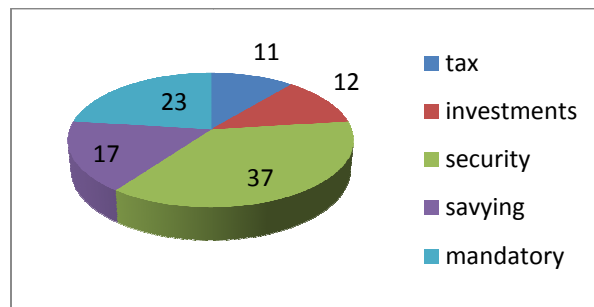


Fig 5 Reasons for buying insurance

Most respondents (43% of the total) have incomes between 400 and 800 lei, 25% had incomes between 800 and 1200 lei, 17% between 1,200 and 1,600 lei, while the remaining 15% of respondents fall into another category of income.

6. When asked "How much would you be willing to pay for the payment of insurance rates?"The distribution of respondents was as follows:

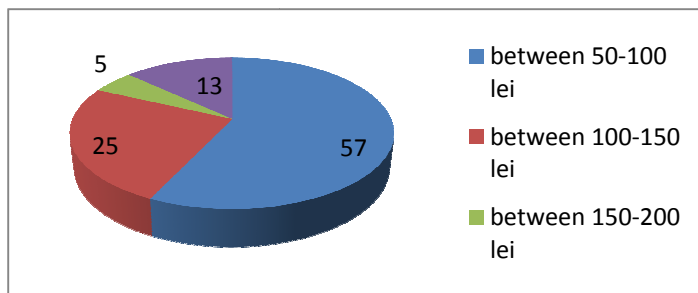


Fig 6 Students' willingness to pay

7. When asked "What criteria used in selecting an insurance company?" the distribution of responses was as follows:

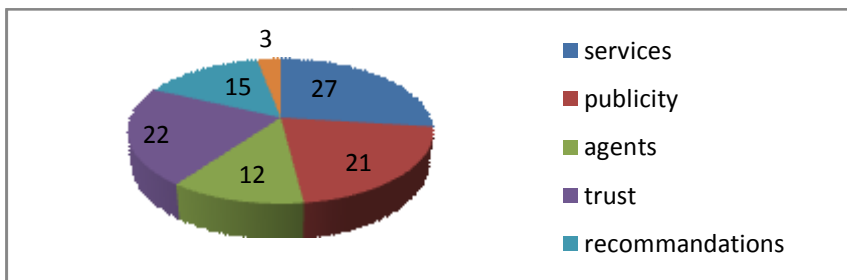


Fig 7 Criteria in selecting insurance

It can be seen that 27% of respondents choose the insurance company for services, 21% after media advertising, 22% by confidence, 12% by agencies conducting end insurance policies, 15% of respondents choose the insurance company after the recommendations from other customers, 3% choose insurance policy after product characteristics.

8. When asked "If you feel more protected with an insurance policy?" the distribution of responses was:

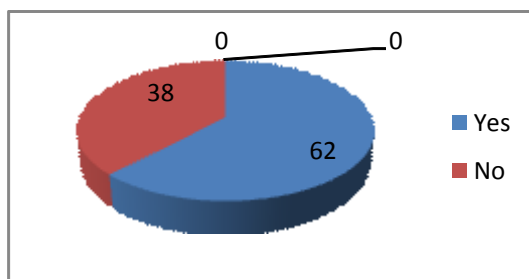


Fig 8 Structure of respondents according to the degree of protection a policy provide in Romania

It can be seen that 62% of respondents consider that they feel more protected with an insurance policy, and 38% believe that. Regarding the feeling of safety provided by an Italian student insurance, we see that 56% of young people feel safer after holding an insurance

To the question "Do you intend to buy insurance in the future? Why?" Among the reasons given by the majority of respondents in Romania are: the intention to buy an insurance policy in the future if they have the financial resources to invest, to protect, to avoid damage. Waste of money or had not immediate utility value insurance policy explains the reluctance of some of the students. On the other hand, those who are open at the

end of a future insurance claims and product safety reasons, a future family and there is a bigger budget which will be able to pay the insurance.

Conclusions

Answers showed that there are gender differences in which concerns the attitude towards insurance and the degree of confidence. When people have insurance, incline to be more irresponsible due to information asymmetry that condition their behaviour. The monetary factor remains the more restrictive one although students had a positive attitude towards insurance:

- the majority of young people have no insurance due to the lack of money not due to the lack of information;
- people would buy an insurance due to the feeling of trust and security that an insurance held creates;
- It has been demonstrated that respondents were risk averse (52,7%), being stated the hypothesis of Economic Standard Model, the exception from the basic rule can be explained by formed attitudes, ramming effects, cognitive dissonance, concepts of behavioural economics
- it is noticed that financial reasons blend with emotional ones in order to sustain the idea that human beings are not so rational in their decision process and the affective component could play an important role in making an acquisition

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