

What makes
customers tick?
Understanding
customer behaviour
in retail general
insurance



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Foreword

Deloitte's previous report, *Keeping promises*, argued that becoming more customer-centric should be a priority for all financial services providers.¹ This latest report focuses on customer experience in retail general insurance (GI).

Although the economy has improved since our last report in April 2013, the GI market remains challenging for insurers:

- growth is likely to be low because, in major product categories, most customers likely to buy insurance already have it; and
- profitability is likely to remain under pressure because customers are highly price-sensitive and have little loyalty.

Insurers seeking to compete successfully should consider differentiating their products and services on the basis of customer experience.

A price-led strategy is unsustainable. There is little scope to reduce motor insurance premiums given that the UK industry made underwriting losses in every year from 1995 to 2012. In addition, insurers have already removed significant costs since the financial crisis.

Product innovation is a risky strategy. Customers have lost trust in product variations that add complexity, such as cover sold alongside mainstream products ('add-ons'), due to warnings in the press that they offer poor value.

It is Deloitte's view that re-examining customer behaviour reveals opportunities to improve customer experience.

However, improving customer experience will be difficult. Customer behaviour does not follow the norms of rationality assumed in classical economic models. Rather, as found by a recent Deloitte survey, customers display behavioural biases in their interactions with general insurers.²

Another powerful reason for insurers to understand the seemingly 'irrational' customer behaviour better is to avoid the poor customer outcomes it can contribute to, such as those identified by the Financial Conduct Authority (FCA). In its study of the add-ons market, the FCA found that "opt-outs [that require consumers to take active steps not to purchase] knowingly exploit consumer biases and can result in consumers not making informed decisions".³ In addition, in its thematic review of price comparison websites (PCWs) in GI, the FCA found that "some PCWs may be exploiting consumers' behavioural biases to maximise revenue".⁴

To understand customer behaviour better, Deloitte commissioned an online survey of more than 2,800 motor, buildings and contents insurance customers. This report sets out the findings of that survey, and proposes practical steps on how to improve customer experience.

We hope that you find our insights thought-provoking and useful, and welcome your feedback.



A handwritten signature in black ink, appearing to read "Scott Wheatley".

Scott Wheatley
Partner, Financial Services,
Head of Insurance
Consulting

Executive summary

Our survey suggests that customers often behave ‘irrationally’ in many of their dealings with GI. Deloitte has identified five aspects of behaviour that have major implications for customers’ experience of GI. Below are the key findings of the report:

Customers simplify general insurance

General insurance is complex. Customers respond by interpreting it in simple terms. This is important for customer experience for two main reasons. First, it implies that customers want GI to be simpler. Second, it suggests that customers’ simplistic understanding of GI can lead to poor experiences, such as the misunderstanding of claims identified by the survey. In response, insurers should make their products much easier to understand.

Customer satisfaction depends on perceived effort

Customers do not like having to make an effort. Insurers know this. But they may be unaware of what feels like ‘hard work’ for their customers. The survey has surprising results: customers appear to have a highly subjective view of what constitutes effort. Insurers should try to improve their understanding about customers’ perceptions.

Customers judge insurers on how they respond to mistakes

Customers take a dim view of mistakes by their insurers. However, the survey indicates that they give insurers the chance to make amends. Few take it: customer satisfaction with how insurers respond to their mistakes is low. Insurers should improve customers’ experience by investing in customer-facing staff who are more empathetic and have greater power to act.

Customers’ propensity to adopt digital media is a missed opportunity for insurers

General insurers have allowed PCWs to exacerbate price competition. UK motor insurers made underwriting losses in every year from 1995 to 2012, and PCWs certainly contributed to margin pressure in the latter years.⁵ Despite the fundamental threat posed to insurers by new technologies, our survey suggests that they are not yet rising to the challenge. Users of mobile banking have higher loyalty and stronger advocacy than non-users.⁶ By contrast, our survey found that, for a majority of insurers, customers who use the website to communicate with their insurer are less likely than the average customer to recommend it.

Moreover, four-fifths of customers choose to communicate with their insurer by phone, compared to a quarter who get in touch via the website or email. Given that more customers buy GI from insurers’ websites than via any other channel, this suggests that insurers are failing to make digital channels user-friendly for customer communication. Digital channels should be easier to use, more interactive and better-linked to other channels.

Customers care most about the emotional side of claims

Customers care a great deal about claims. It is not just the financial loss they must cope with: making a claim is also an emotional experience. The survey suggests that emotional triggers can provoke greater dissatisfaction with claims than whether they are accepted or rejected. Insurers should seek to reduce the emotional causes of dissatisfaction with claims.

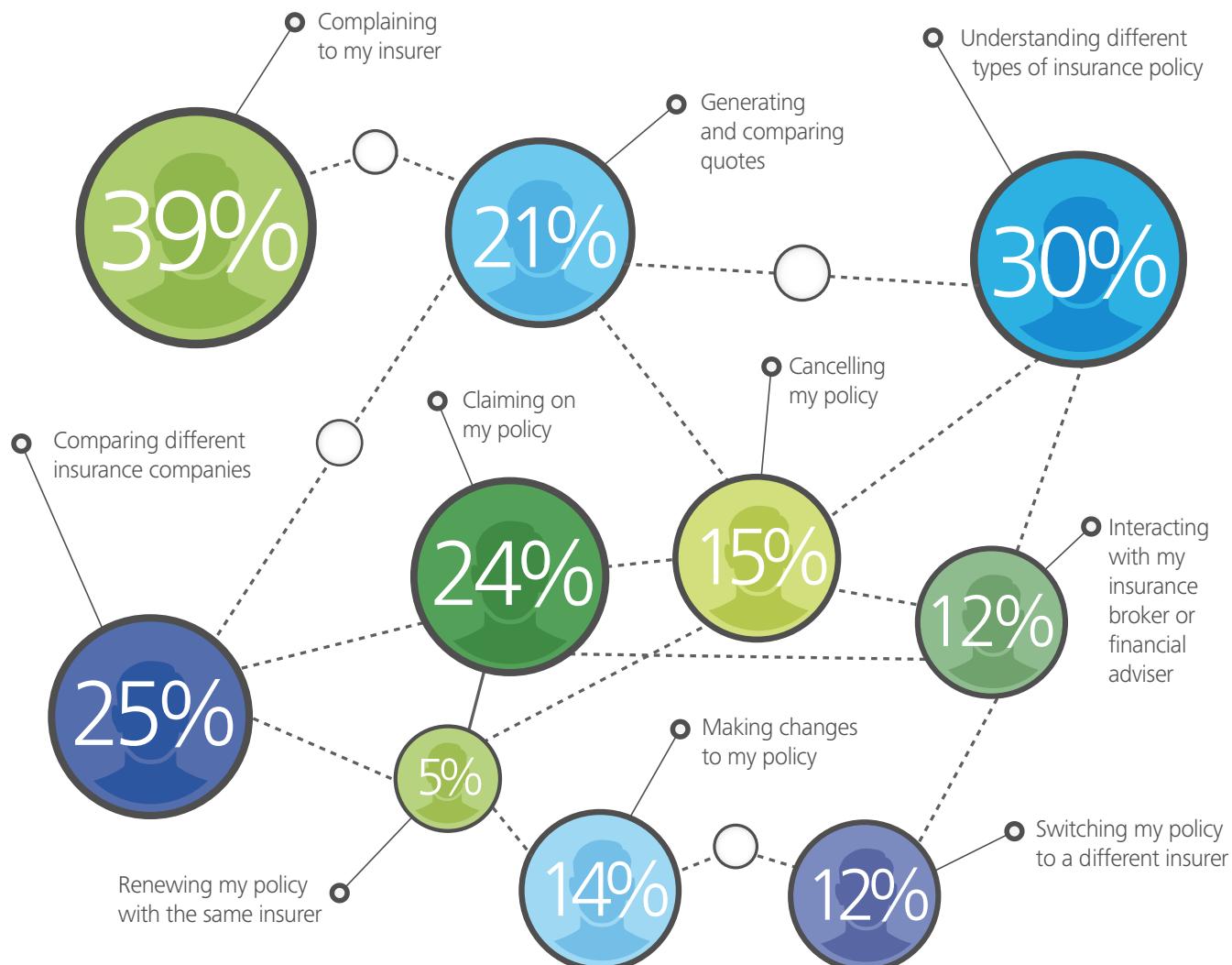
Customers simplify general insurance

General insurance is complex. It is complicated for customers to work out what cover they need and how much they should pay for it.

But it is not just purchasing decisions that are complicated. Many of the actions that GI customers undertake are complicated. Some providers add to the complexity. Recent research found policy documents of over 30,000 words, which is longer than George Orwell's classic *Animal Farm*.⁷

And yet, across all activities customers undertake, on average only one in five customers say they find GI complicated (Figure 1). What explains the big difference between the actual complexity of GI and the complexity that customers perceive?

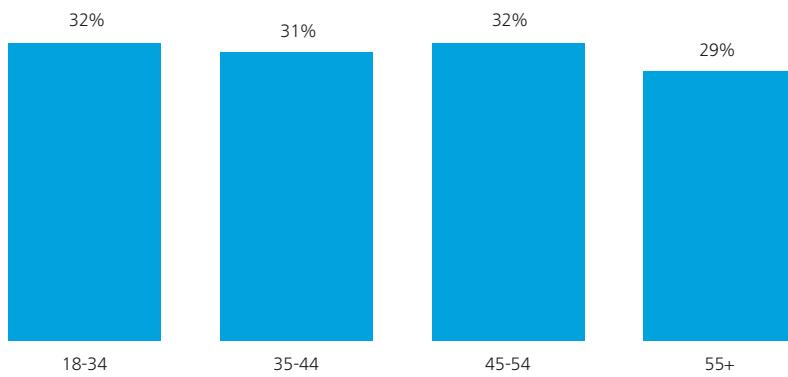
FIGURE 1. PERCENTAGE OF CUSTOMERS WHO FIND GI COMPLICATED BY TRANSACTION



One might expect that a much greater proportion of younger than older customers would find GI complicated because they have less experience. But this is not the case. In fact, the survey found that roughly the same proportion of customers aged 18 to 34 as customers aged 55 or over finds understanding policies complicated (Figure 2).

Customers cope with the complexity of GI in a variety of ways, some of which are 'irrational'. The most obvious example is buying a policy using a rule of thumb to choose the cheapest every time. In using this rule, customers ignore other important factors, such as what the policy covers.

FIGURE 2. PERCENTAGE OF CUSTOMERS WHO FIND UNDERSTANDING DIFFERENT TYPES OF GI POLICY COMPLICATED BY AGE GROUP



Source: Deloitte Insight/YouGov 10 – 16 April 2014

This may well be 'irrational' as customers may fail to purchase the cover they need. But it saves precious time and effort. To combat this bias of substituting one easy choice (which policy is cheapest) for a harder one (which is best value) will require insurers to make it easier for customers to understand the value on offer, be it broader scope of cover, superior claims handling or better-trained staff.

Other instances of customers simplifying GI include:

- deciding whether to follow a broker's advice depending on whether the broker is a likeable person
- choosing an insurer based on its brand
- assuming all losses are covered by a policy.

This is important for customer experience in two ways. First, it implies that customers would like GI to be simpler than it is. It also suggests that customers can make mistakes by simplifying the facts.

The implications of this aspect of behaviour and how insurers should respond are set out below:

KEY INSIGHT	INSURER RESPONSE
Customers simplify GI to make it easier to understand.	<p>Make products easier to understand, for example by reducing policy document length and using simpler language.</p> <p>Make the value of products and services easier to understand by emphasising the brand and service promises (and deliver on these promises).</p> <p>Consider different brands for different service levels and covers.</p>
Customers think they understand GI better than they do.	Help customers avoid poor outcomes, such as purchases that are ill-suited to their needs.

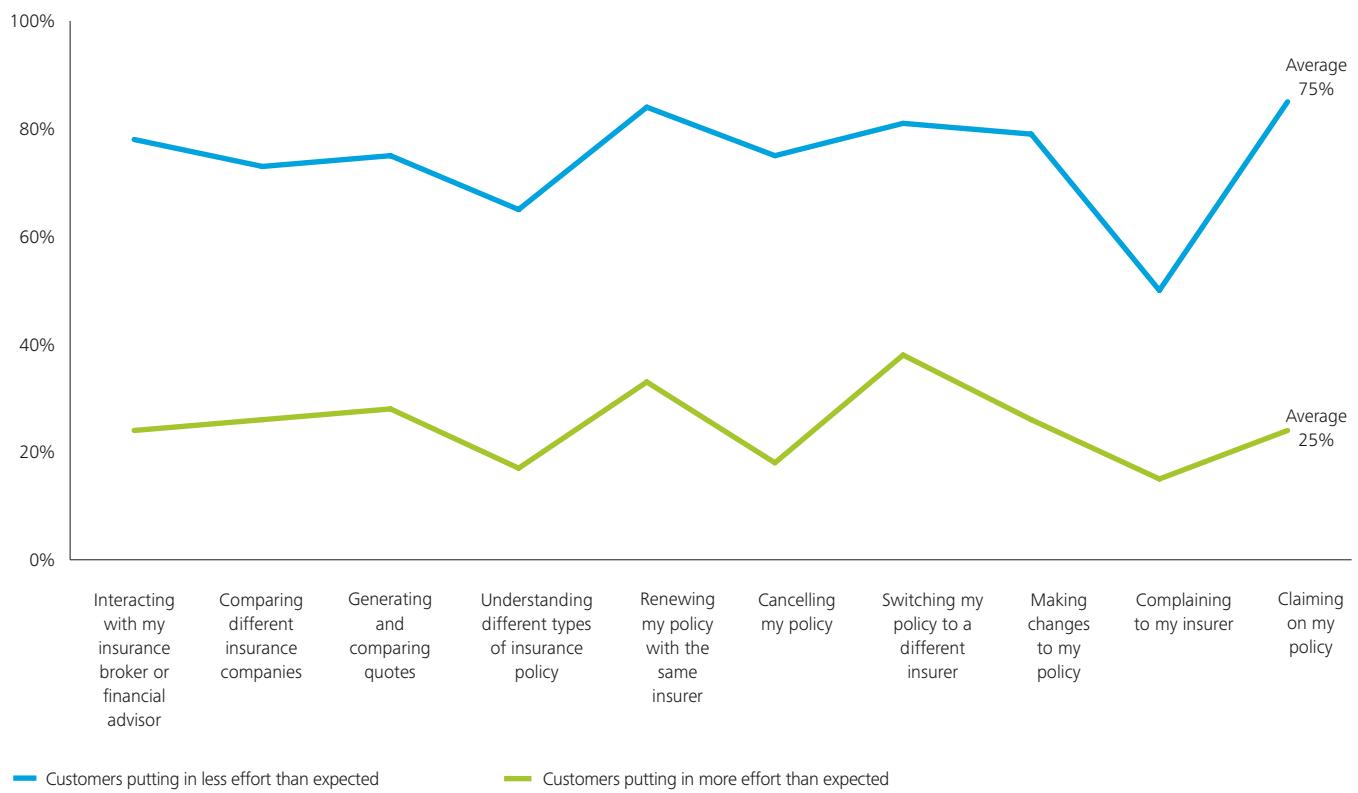
Customer satisfaction depends on perceived effort

The survey confirms a finding from psychology experiments – that less effort is a better experience.

Across the activities that customers undertake, on average customers are three times more likely to be satisfied when making less rather than more effort than they expected (Figure 3).

However, the survey gives a surprising indication that customers have a subjective perception of how much effort they put into GI, which can be different from their actual effort.

FIGURE 3. PERCENTAGE OF SATISFIED CUSTOMERS BY LEVEL OF EFFORT



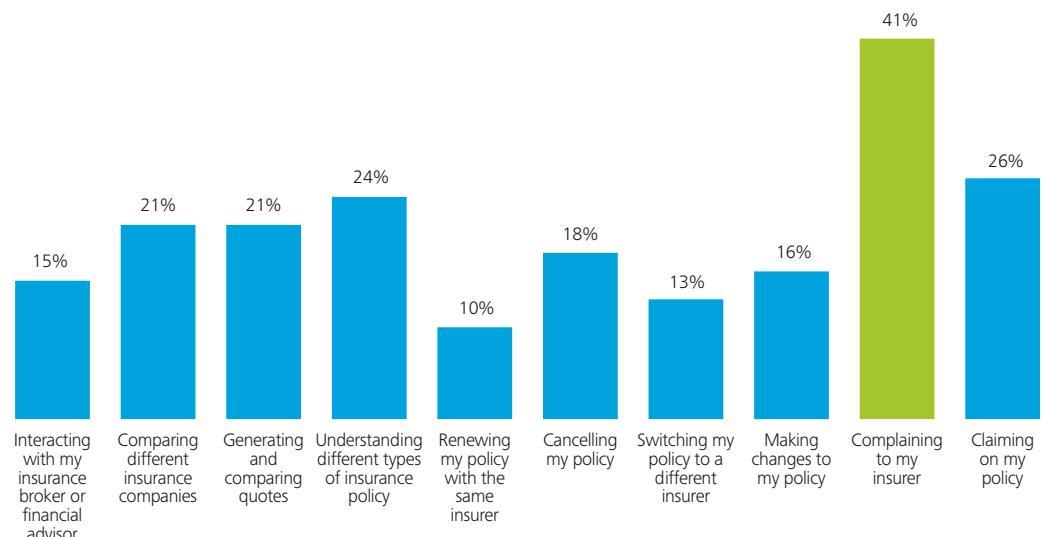
Source: Deloitte Insight/YouGov 10 – 16 April 2014

Figure 4 shows that customers perceive the greatest effort in complaining to their insurer. This chimes with the finding of an FCA study. It identified that no more than half of customers who feel like complaining about claims do so.⁸ The main reasons for not complaining amongst those who felt like it were that they could not be bothered, did not think it would make any difference and it looked to be too much effort.

However, both of these findings about the difficulty of complaining, and especially our finding about how it compares to making a claim, are somewhat surprising.

After all, complaining typically requires customers to provide significantly less information than making a claim. However, in our survey, the proportion of customers perceiving it to be more effort than expected is a full 15 percentage points higher. This may be because many people find complaining to be emotionally difficult, rather than because it is more onerous in terms of time or mental effort than other activities.

FIGURE 4. PERCENTAGE OF CUSTOMERS WHO PUT IN MORE EFFORT THAN EXPECTED



Source: Deloitte Insight/YouGov 10 – 16 April 2014

The implications of this aspect of behaviour and how insurers should respond are set out below:

KEY INSIGHT	INSURER RESPONSE
Effort is perceived very negatively: it is negatively correlated with customer satisfaction. The perception of effort is subjective.	<p>Identify where customers perceive most effort focussing on their experience and perception rather than simply on objective measures, such as time taken across the process.</p> <p>Improve the empathy of front line staff.</p> <p>Make the online experience as seamless as possible.</p> <p>Make the results of customers' efforts very clear to them, especially when they make more effort than is typically required or expected.</p>
Customers do not report many issues to their insurers due to the perceived effort of doing so.	<p>Make it easier for customers to give feedback.</p> <p>Do more to understand unreported issues, for example through customer panels, and through front line staff simulating customers' interactions with insurers.</p>

Customers judge insurers on how they respond to mistakes

When an insurer makes a mistake, it puts customers under stress. The survey found that almost half (46 per cent) of those who suffer from a mistake cancel or do not renew their policies as a result.

So insurers should try to learn what factors cause the greatest stress for customers and identify measures that should be taken to make customers feel better.

Clearly, how an insurer responds to its mistakes matters a great deal to customers: a customer dissatisfied with a response is more than three times more likely to switch than one who is satisfied according to the survey (Figure 5).

Perhaps surprisingly, the severity of mistakes is not the most significant factor causing stress. According to the survey, customers suffering the most serious mistakes are just 1.3 times more likely to switch than those who suffer the least serious mistakes (Figure 6).

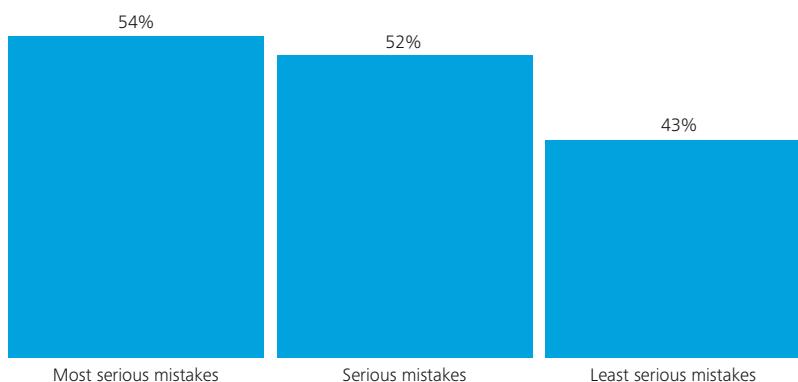
This apparent lack of correlation between dissatisfaction and severity of mistake seems 'irrational'. The adverse consequences are much greater when the mistake is serious (such as loss of personal data) than when it is less important (such as incorrect personal details in the policy document). However, customers treat mistakes of differing severity in more or less the same way, if not quite equally.

FIGURE 5. PERCENTAGE OF CUSTOMERS WHO SWITCH DUE TO AN INSURER'S MISTAKE



Source: Deloitte Insight/YouGov 10 – 16 April 2014

FIGURE 6. PERCENTAGE OF CUSTOMERS WHO SWITCH DUE TO AN INSURER'S MISTAKE BY SEVERITY OF MISTAKE

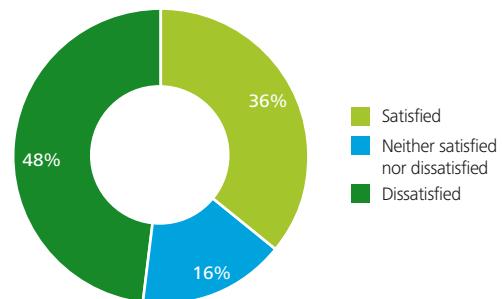


Source: Deloitte Insight/YouGov 10 – 16 April 2014
See note for categorisation of mistakes

This paradox may be due to the fact that customers judge a mistake on how the insurer responds rather than by taking account of the severity of the mistake.

In view of the importance of responding well to mistakes, insurers have room for improvement. The survey reveals that only a third (36 per cent) of customers are satisfied with how insurers respond to their mistakes (Figure 7).

FIGURE 7. PERCENTAGE OF CUSTOMERS SATISFIED WITH INSURER RESPONSE TO MISTAKES



Source: Deloitte Insight/YouGov 10 – 16 April 2014

The implications of this aspect of behaviour and how insurers should respond are set out below:

KEY INSIGHT	INSURER RESPONSE
Barely one-third of customers are satisfied with how insurers respond to their mistakes.	<p>Do more to identify and analyse the sources of complaints.</p> <p>Be honest with customers (and staff) about the company's performance in managing issues and complaints.</p> <p>Empower front line staff to intervene and address mistakes (within constraints of appropriate policies and controls).</p> <p>Use customer feedback on errors to improve documents for customers, the online experience and agent performance. Do not rely only on internal metrics to do so.</p> <p>Bring individual customer experiences to life for staff and leaders. Tell stories, use real-world examples (of when it went wrong).</p> <p>Improve the acknowledgement of, and compensation for, mistakes, for example by sending vouchers.</p> <p>Improve written communications around mistakes, for example by making apology letters more concise, powerful and personal.</p>

Customers' propensity to adopt digital media is a missed opportunity for insurers

Customers use digital channels in many aspects of their lives. This is true in GI too.

The FCA found that "almost half of all Internet users have used PCWs to research motor insurance, with four out of five going on to buy insurance through this channel".⁹ Our survey found the Internet to be the most popular channel to research and buy GI cover: 37 per cent of customers buy GI via an insurer's website, compared to 32 per cent who buy over the phone.

However, despite the pressure on pricing generated by PCWs, our survey suggests that insurers are failing to rise to the challenge posed by the Internet.

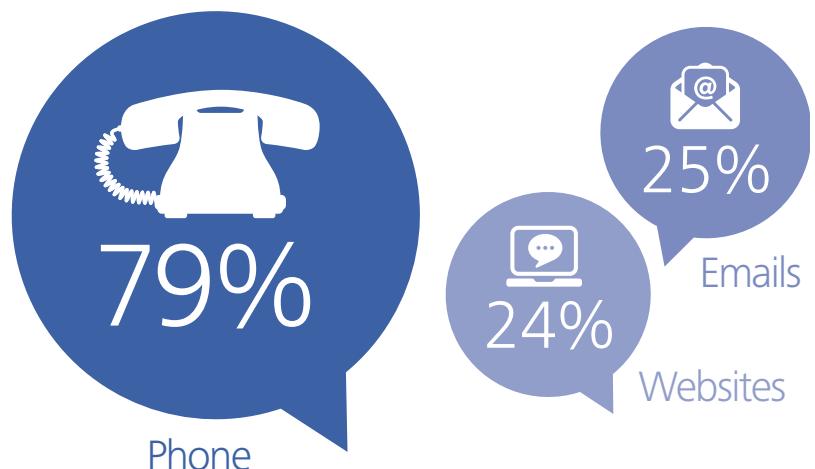
At the majority of insurers, customers using digital communication channels are less likely than average to recommend their insurer.¹⁰ The survey found that at five out of seven motor insurers, and four out of seven building or contents insurers, customers who used digital communication channels were less likely than the average customer to recommend their insurer.

Moreover, four-fifths of customers who communicate with their insurer choose to do so by phone, rather than via the website or email. According to the survey, 84 per cent of customers communicate with their insurers, rather than simply transact with them; and of these customers, four-fifths (79 per cent) use the phone, but only a quarter use emails (25 per cent) or websites (24 per cent) (Figure 8).

Given the dominance of the Internet as a means to research and buy GI, what accounts for this preference for the phone in communicating with insurers? Is it due to the nature of GI? After all, GI is complicated, and customers may feel they can deal with issues more quickly and efficiently over the phone. In addition, making a claim causes stress and speaking to another person can, and should, provide comfort. However, the lower levels of recommendation by those using GI websites suggest that the core reason may simply be that GI digital channels are too difficult to use.

Insurers have a huge opportunity to improve customer experience, and thereby drive greater loyalty and advocacy, through providing better digital channels. This would help wean customers off price comparison websites which, as the FCA has identified, may not always help customers purchase the most appropriate policy for their needs.¹¹ The best approach will be to design an experience for customers that takes their revealed preferences into account.

FIGURE 8. PERCENTAGE OF CUSTOMERS WHO COMMUNICATE WITH INSURERS BY CHANNEL



Source: Deloitte Insight/YouGov 10 – 16 April 2014

Note: usage of channels totals more than 100 per cent because customers use multiple channels. The data do not represent volume of communications via channel.

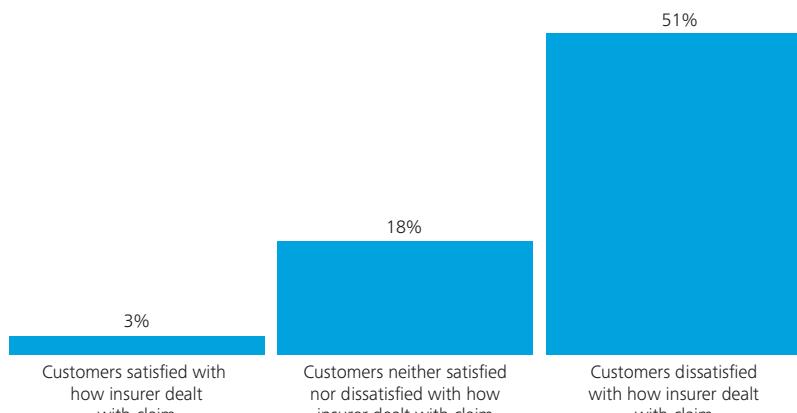
The implications of this aspect of behaviour and how insurers should respond are set out below:

KEY INSIGHT	INSURER RESPONSE
The vast majority of customers communicate (rather than simply transact) with their insurers. Of this majority, almost four-fifths phone their insurer, compared with around a quarter who use email or the company website.	<p>Focus on providing good phone communications to target customer segments at the most appropriate times.</p> <p>Recruit front line staff for attitude and train them to be empathetic, customer-centric and brand affirming.</p> <p>Focus contact centre staff on both issue resolution and operational efficiency.</p> <p>Create centres of excellence for customer service improvement that incorporate ideas from front line staff.</p>
At most insurers, digital channels do not prompt users to recommend their insurer to others.	<p>Make digital channels as easy as possible to use.</p> <p>Encourage more customers to do as much as possible online so that they only revert to voice when they need clarification or reassurance.</p> <p>Deliver the brand promise across all channels and ensure the user experience is aligned to the overall customer experience vision, brand and values.</p> <p>Optimise channels for emerging devices and offer online support models for customers.</p>
Customers have widely adopted digital channels for research, but not communication.	<p>Make digital channels richer and more interactive.</p> <p>Make it much easier for customers to email, web-chat or interact using social media.</p> <p>Make better use of digital assets to improve customer experience (in addition to supporting transactions).</p> <p>Identify customer segments for whom digital channels are inappropriate and provide them with a timely and effective telephone service.</p>

Customers care most about the emotional side of claims

Customers care a lot about making claims. They need both financial and emotional support from insurers to cope with the experience.

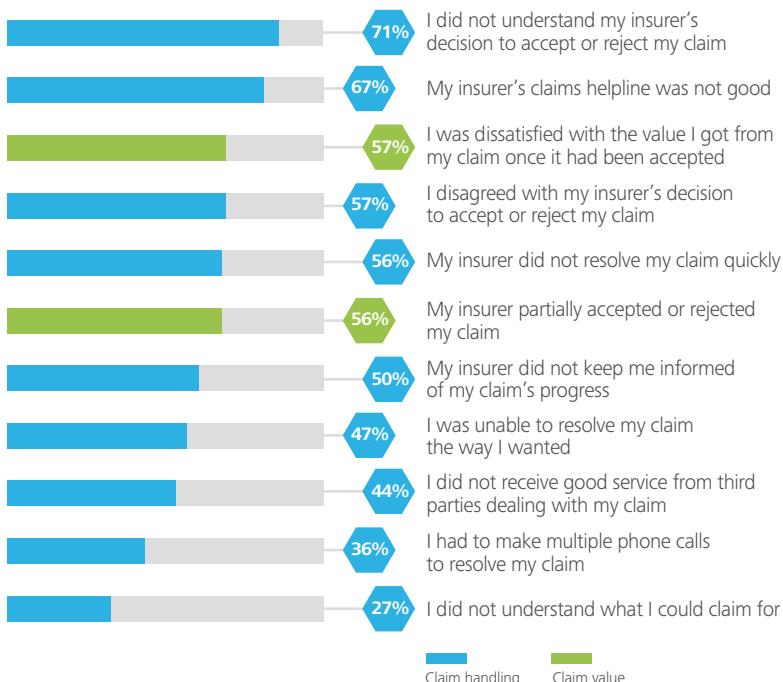
FIGURE 9. PERCENTAGE OF CUSTOMERS WHO SWITCH FOLLOWING A CLAIM BY SATISFACTION WITH CLAIM HANDLING



Source: Deloitte Insight/YouGov 10 – 16 April 2014

Note: the bars represent three different groups of customers and cannot be aggregated.

FIGURE 10. PERCENTAGE OF CUSTOMERS DISSATISFIED WITH HOW INSURER DEALT WITH CLAIM BY CAUSE OF DISSATISFACTION



Source: Deloitte Insight/YouGov 10 – 16 April 2014

Note: percentages represent the proportion of customers who agreed or disagreed with the relevant statement about claims and were dissatisfied with claims.

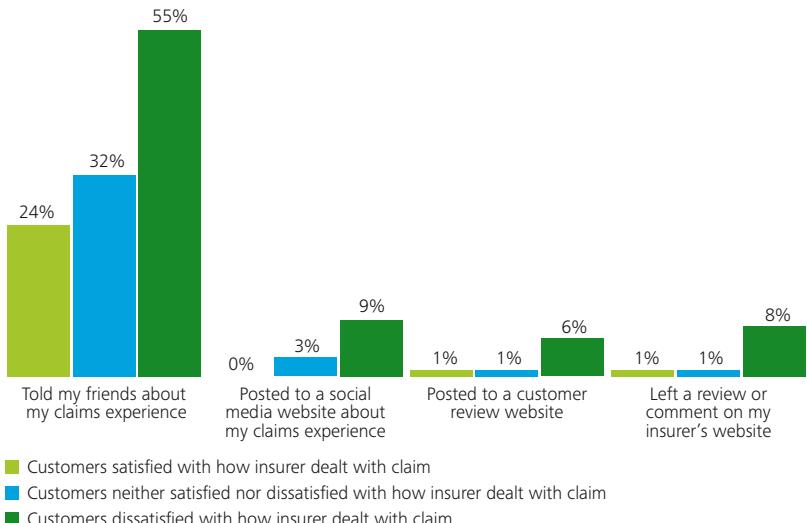
Customers care a lot about making claims. They need both financial and emotional support from insurers to cope with the experience. The survey reinforces this view: customers satisfied with a claim are six times less likely to switch than those who are indifferent (Figure 9). And customers dissatisfied with a claim are almost three times more likely to switch than those who are indifferent.

So what determines customer satisfaction with claims? Surprisingly, the survey found that dissatisfaction with the financial settlement of a claim was less significant than the handling of a claim.

Not understanding the claim decision is more likely to make customers unhappy than any other reason. Of respondents in the survey who did not understand a claim decision, nearly three-quarters (71 per cent) were dissatisfied with their claim. Over two-thirds (67 per cent) of customers who thought the claims helpline was poor expressed dissatisfaction. In comparison, 56 per cent of customers whose claim had been rejected or only partially paid were dissatisfied (Figure 10).

Avoiding poor claims handling is all the more important for insurers given that customers are far more likely to tell friends and family about a poor claims experience than a good one. The survey found that more than half of customers (55 per cent) tell their friends about bad claims experiences, but less than a quarter (24 per cent) relay good experiences (Figure 11). And this bias is stronger in digital channels. For example, almost a tenth (nine per cent) of dissatisfied customers posted their experiences to social media compared to none of the satisfied customers.

FIGURE 11. PERCENTAGE OF CUSTOMERS WHO TALK ABOUT CLAIMS BY CHANNEL



Source: Deloitte Insight/YouGov 10 – 16 April 2014

The implications of this aspect of behaviour and how insurers should respond are set out below:

KEY INSIGHT	INSURER RESPONSE
Poor claims handling provokes dissatisfaction more than the financial pay-out.	<p>Empathise more with customers.</p> <p>At the outset of claims, agree with customers how, and how often, to provide updates.</p> <p>Better inform customers about the progress of claims.</p> <p>Explain the decision to reject (or partially pay) claims more clearly.</p> <p>Deliver claims service promises (ensure sufficient control over the supply chain to do this).</p>
Not understanding the claim decision is more likely to provoke dissatisfaction among customers than other reasons.	<p>Systematically harvest and make better use of data to understand customers better, for example data from social media, customer surveys and websites.</p> <p>Explore why customers fail to understand claims decisions, for example by following up complaints on social media, and through surveys.</p> <p>Identify when to intervene based on the cause of dissatisfaction.</p>
Claims helplines can be a powerful cause of frustration.	<p>Ensure the customer is routed to someone with the right expertise, authority and training to deal with the claim.</p> <p>Incorporate customer feedback into training and documents for customers, clarifying the claims process.</p> <p>Measure frequency of resolving claims in a single contact with the customer.</p>
Customers do not publicise their good experiences of claims.	<p>Incentivise customers to publicise good claims experiences, and make it easy for them to do so via insurer websites.</p> <p>Record customer testimonials when claims are resolved.</p>

Appendix

Survey methodology

The online survey of 2,849 UK adults was conducted on behalf of Deloitte by YouGov plc on 10 – 16 April 2014. Percentages exclude people who selected opt-out options (e.g. Don't know, Not applicable etc.).

Definition of irrational behaviour

As the FCA pointed out in its inaugural Occasional Paper, on behavioural economics, "For many decades...economics relied on models that assumed people chose rationally... Over time, however, psychologists established that an individual's choices are often inconsistent - with each other, over time or with the individual's stated aims". Now both economists and psychologists talk of behavioural 'biases', not in a pejorative sense, but meaning simply a deviation from a strict economic model of rationality. In this paper, irrational behaviour refers to behavioural biases.

Note to Figure 1

Samples: interacting with my insurance broker or financial adviser (1,104); comparing different insurance companies (2,271); generating and comparing quotes (2,240); understanding different types of insurance policy (2,177); renewing my policy with the same insurer (2,414); cancelling my policy (1,091); switching my policy to a different insurer (1,809); making changes to my policy (1,365); complaining to my insurer (438); claiming on my policy (715)

Note to Figure 2

Samples: 18-34 (177); 35-44 (273); 45-54 (413); 55+ (1,319)

Note to Figure 3

Samples: interacting with my insurance broker or financial adviser, customers putting in less effort than expected (398), customers putting in more effort than expected (156); comparing different insurance companies, customers putting in less effort than expected (580), customers putting in more effort than expected (468); generating and comparing quotes, customers putting in less effort than expected (562), customers putting in more effort than expected (464); understanding different types of insurance policy, customers putting in less effort than expected (419), customers putting in more effort than expected (502); renewing my policy with the same insurer, customers putting in less effort than expected (1,032), customers putting in more effort than expected (232); cancelling my policy, customers putting in less effort than expected (379), customers putting in more effort than expected (192); switching my policy to a different insurer, customers putting in less effort than expected (636), customers putting in more effort than expected (222); making changes to my policy, customers putting in less effort than expected (523), customers putting in more effort than expected (217); complaining to my insurer, customers putting in less effort than expected (120), customers putting in more effort than expected (179); claiming on my policy, customers putting in less effort than expected (289), customers putting in more effort than expected (176)

Note to Figure 4

Samples: interacting with my insurance broker or financial adviser (1,064); comparing different insurance companies (2,210); generating and comparing quotes (2,184); understanding different types of insurance policy (2,086); renewing my policy with the same insurer (2,350); cancelling my policy (1,051); switching my policy to a different insurer (1,743); making changes to my policy (1,316); complaining to my insurer (435); claiming on my policy (680)

Note to Figure 5

Samples: satisfied customers (64); dissatisfied customers (84)

Note to Figure 6

The categorisation of mistakes is by Deloitte.

Most serious mistakes: gave me a wrong quote; overcharged me; cancelled my insurance by mistake; lost my personal data

Serious mistakes: failed to set up my policy properly; failed to change my policy as I requested; failed to cancel my policy as I requested; failed to record what I told them; failed to issue policy documentation to me; failed to keep me informed of what they were doing; provided incorrect information

Least serious mistakes: got my personal details wrong in policy documentation; got details of my insurance wrong in policy documentation

Samples: most serious mistakes (76); serious mistakes (96); least serious mistakes (53)

Note to Figure 7

Sample: 177

Note to Figure 8

Sample: 2,380

Note to Figure 9

Samples: satisfied customers 330; neither satisfied nor dissatisfied: 71; dissatisfied customers 78

Note to Figure 10

Samples: I did not understand my insurer's decision to accept or reject my claim (51). My insurer's claims helpline was not good (67). I was dissatisfied with the value I got from my claim once it had been accepted (67). I disagreed with my insurer's decision to accept or reject my claim (56). My insurer did not resolve my claim quickly (103). My insurer partially accepted or rejected claim (48). My insurer did not keep me informed of my claim's progress (112). I was unable to resolve my claim the way I wanted (97). I did not receive good service from third parties dealing with my claim (89). I had to make multiple phone calls to resolve my claim (160). I did not understand what I could claim for (66)

Note to Figure 11

Samples: satisfied customers (330); neither satisfied nor dissatisfied (71); dissatisfied customers (78)

Customer recommendation of insurer by communication channel

Likelihood to recommend insurer on average is the proportion of customers who communicate with their insurer who are very likely or likely to recommend it to family, friends or colleagues. Samples at each insurer were 59 or above.

Likelihood of customers using digital communication channels to recommend insurer is the proportion of customers who communicate with their insurer via digital channels who are very likely or likely to recommend it to family, friends or colleagues. Samples at each insurer were 30 or above.

Digital channels are website, email, online chat facility and smartphone app.

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End notes

- 1 "Keeping promises: Putting customers at the heart of retail financial services", Deloitte LLP, April 2013
See: https://www2.deloitte.com/content/dam/Deloitte/ie/Documents/Process/keeping_promises_retail_financial_services_deloitte_uk.pdf, p. 1.
- 2 See definition of irrational behaviour in Appendix, which is drawn from the FCA's Occasional Paper No.1, "Applying behavioural economics at the Financial Conduct Authority", April 2013. See <http://www.fca.org.uk/static/documents/occasional-papers/occasional-paper-1.pdf>, p. 11.
- 3 "General insurance add-ons: Provisional findings of market study and proposed remedies", Financial Conduct Authority, March 2014. See: <http://www.fca.org.uk/news/general-insurance-add-ons-market-study>, p. 59.
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