The Role of Trust in Narrowing Protection Gaps

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The Geneva Association

The Geneva Association (GA) is the only global association of insurance companies; its members are insurance and reinsurance CEOs. Through its research, the GA investigates key trends and risk areas likely to shape or impact the insurance industry and develops recommendations for the industry and policymakers. The GA's conferences and meetings are a platform for GA members, policymakers, academics, multilateral and non-governmental organisations to further advance these issues. The Association leverages its communications, publications and partnerships to highlight the positive contributions of insurance to more resilient and prosperous societies and thus to a more sustainable world.

Established in 1973, The Geneva Association, officially the International Association for the Study of Insurance Economics, is based in Zurich, Switzerland and is a non-profit organisation funded by its members.

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Foreword

Trust is an indispensable ingredient in the insurance business. Insurers sell contingent promises to pay, often at a distant point in the future. Customers can only assess the validity of those promises after a claim has been filed and settled. Therefore, the overall reputation of insurers, as well as a robust legal and regulatory framework, are instrumental in generating trust with customers.

This Geneva Association report goes beyond offering a robust investigation into why a lack of trust fundamentally impedes insurance demand, leading to protection gaps. It also addresses the shifting determinants of customer trust in the digital age. On top of traditional factors such as claims performance and product clarity, insurers' ability to protect customer data and to employ advanced analytics responsibly and transparently is also developing into an important driver of trust. With the rise of algorithms, a new 'machine-to-person' dimension of trust is developing. The need and opportunity to attract customers online also adds to the importance and relevance of trust in the digital economy.

In emerging markets, where the insurance industry has little operating track record, technology can build insurance processes and expedite trust building. In mature markets, new technologies can underscore insurers' customer centricity and the appeal of their products, fostering trust and tackling long-standing protection gaps.

With the following publication, we hope to offer a concrete, multi-stakeholder roadmap for harnessing trust to narrow the gaps between needed and available insurance protection.

Jad Ariss
Managing Director
The Geneva Association

1. Management summary

The Geneva Association 2018 Customer Survey, conducted in 7 mature economies, reveals that for half of the respondents an increased level of trust in insurers and intermediaries would encourage additional insurance purchases.

Against this backdrop, a comprehensive analysis of the role and nature of trust in insurance, with a focus on the retail segment, is set to offer additional important insights into how to narrow the protection gap —the difference between needed and available protection.

Our analysis is based on economic definitions of trust, viewed as an 'institutional economiser' that facilitates or even eliminates the need for various procedures of verification and proof, thereby cutting transaction cost.

While these long-established notions continue to be relevant, we are witnessing some fundamental changes in the trust landscape, triggered by digitalization. A major impact arises from the creation of new technology-based intermediaries. They provide a trusted digital platform for large communities of people representing both the demand and supply side in the emerging sharing or platform economy.

In the more specific context of insurance, trust can be defined as a customer's bet on an insurer's future contingent actions, ranging from paying claims to protecting personal data and ensuring the integrity of algorithms. Trust is the lifeblood of insurance business, as its carriers sell contingent promises to pay, often at a distant and unspecified point of time in the future.

In insurance contracts, trust is embedded in a dual and reciprocal way. On the one hand, the insured, when entering into the contract and paying the insurance premium upfront, has to trust that the insurance company will pay promptly if and when the insured event occurs. On the other hand, the insurance company should be able to trust that the insured, once the premium has been paid, does not act in a way that unduly increases the probability of loss occurrence by adopting a riskier behaviour, known as moral hazard.

From that perspective, we can explore the implications of trust for both insurance demand and supply, i.e. its relevance to the size and nature of protection gaps. For example, trust influences behavioural biases such as customers' propensity for excessive discounting, or in other words, an irrationally high preference for money today over money tomorrow. In addition, increased levels of trust impact the basic economics of insurance demand by lowering customers' sensitivity to the price of coverage.

Trust also exerts an important influence on the supply side of insurance. The cost loadings applied by insurers to account for fraud are significant and lead to higher premiums for honest customers. Enhanced insurer trust in insurance customers' prospective honesty would enable lower cost loadings, less restrictive product specifications and, ultimately, higher demand for insurance.

At the same time, the technology-enabled rise in peer-to-peer trust and the amplification of word of mouth is entering the world of insurance as affinity groups and other communities organise themselves through online platforms. In such business models, trust in incumbent insurance companies is replaced with trust in peer groups and the technology platforms that organise them. Another example is blockchain. In insurance, some start-ups have pioneered its use to improve efficiency, transparency and trust in unemployment, property and casualty, and travel insurance.

These developments are set to usher in an era in which customer data will be a key source of competitive edge. Therefore, gaining and maintaining customers' trust in how data is used and handled will be vitally important for insurers too. This imperative also applies to the integrity and interpretability of algorithms based on artificial intelligence (AI), given the major reputational risks associated with potential biases inherent in such algorithms.

In order to substantiate a multi-stakeholder road map for narrowing protection gaps through fostering trust, we propose a triangle of determinants of trust in insurance. First, considering the performance of insurers, how an insurer services a policy and settles claims is core to building or destroying trust. Second, regarding the performance of intermediaries, it is intuitively plausible that those individuals and organisations at the frontline of the customer interface are critically important to the reputation and the level of trust placed in the insurance carrier. And third, taking into account sociodemographic factors, most recent research finds that trust in insurance is higher among females. This research also suggests that trust in insurance decreases with age and that insurance literacy has a strong positive influence on the level of trust in insurance.

Based on this paper's theoretical and empirical findings, we propose a concrete stakeholder road map for ensuring that insurance markets are optimally lubricated with trust.

In order to enhance their contribution to society by bolstering customer trust, we recommend insurers and their intermediaries to facilitate claims settlement,

increase product transparency and simplicity and to 'borrow' trust from non-insurance companies or influencers. Customers and their organisations are encouraged to support collective action against fraud and to share personal data with trustworthy insurers, enabling lower rates and more personalised offerings. And finally, policymakers and regulators are invited to promote access to insurance, ensure insurers' solvency and claims-paying ability, and foster competition in insurance markets.
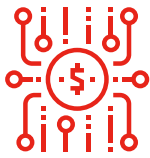
2. The changing notion of trust in the digital economy

The topic of trust is ubiquitous. Via social media and other websites, individuals and companies find themselves trust-ranked, often in real-time. Companies in particular are exposed as never before. In the age of data breaches and cyber incidents it is arguably no longer a question of whether a company will suffer a trust incident, but when. With unprecedented technology-enabled transparency and scrutiny, how a company operates has become as important as what it does.

2.1. Trust as the 'grease' on economic and societal interactions

Trust is an integral component of modern, complex societies. At the same time, it is notoriously difficult to understand and to quantify. Virtually every normal activity people undertake, from driving a car to sending an email, necessitates a significant degree of—mostly unconscious—trust in unknown others. "We need trust because we have to be able to rely on others acting as they say that they will, and because we need others to accept that we will act as we say we will" (O'Neill 2010).

In *The Analects*, Confucius explained to his disciple Tzu-Kung that "The requisites of government are that there be sufficiency of food, sufficiency of military equipment, and the confidence of the people in their ruler". When asked by Tzu-Kung, "If one had to give up one of these three, which should one give up first?" Confucius replied: "Give up arms." When Tzu-Kung said, "If one had to give up one of the remaining two, which should one give up first?" Confucius added "Give up food. Death has always been with us since the beginning of time, but when there is no trust, the common people will have nothing to stand on." This insight dates back to the 6th century BC (Ni 2017).

From a less philosophical and more economic perspective, trust can be viewed as an "institutional economizer, that eliminates the need for various procedures of verification and proof" (Rosunvallon 2008) or as an "invisible institution" (Arrow 2013). As such, it facilitates commerce and other forms of societal interaction by cutting transaction cost.

2.2. The pillars of trust—accountability, transparency and regulation

Since the beginning of industrialisation, generalised trust was no longer based on the actual knowledge of each individual's likely trustworthiness but on other foundations that enabled trust to promote productive social interactions (Scrivens and Smith 2013).

These foundations and accountability, transparency and regulation matter even more in the digital age. As institutional pillars of trust they are of particular relevance to the evolving global digital economy as "trust is essential in situations where uncertainty and interdependence exist (…) and the digital environment certainly encapsulates those factors. (…) In this data-rich and hyperconnected environment, digital privacy and security challenges are also increasing and affecting trust and the potential of the digital economy to support economic and social prosperity" (OECD 2016).

Accountability refers to "the process of being called to account to some authority for one's actions" (Mulgan 2000). For Mulgan, effective accountability has three main characteristics: first, it is external as the account is given to a separate person or body; second, it involves social interaction and exchange, and third, it implies rights of authority, because those calling for an account can demand answers and impose sanctions. The credibility of accountability is of critical importance. "Those individuals or entities that hold others accountable need to be seen to be capable of making independent judgements, those being held accountable need to be prepared to accept the consequences of a negative judgement, and sanctions need to be seen to be appropriate to breaches of trust" (Flew 2019).

The second key element is *transparency*. More transparency from organisations (e.g. through greater disclosure) is considered to enhance stakeholder trust. Disclosure, clarity and accuracy also enable accountability: an organisation can be rewarded for trustworthy behaviour and punished for the opposite (Schnackenberg and Tomlinson 2016).

The third element underpinning the effectiveness of trust is *regulation and governance*. Among the fundamental rationales for regulations are necessary alignments of private commercial or economic interests with the broader public interest as well as addressing market failure and negative externalities. Since the 1980s, debates around regulation have increasingly converged with discussions about governance, partially reflecting the growing role of non-state actors (Flew 2019, and Figure 1).

Figure 1: Pillars of trust in modern societies
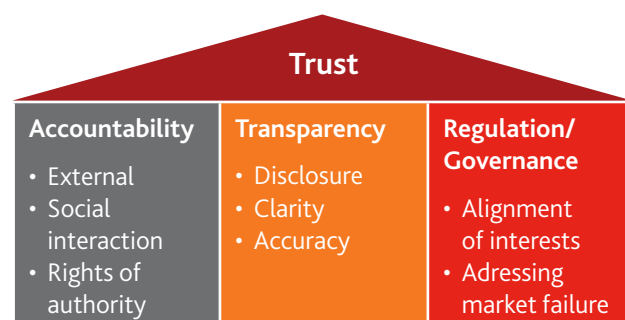
Source: The Geneva Association, based on Flew (2019)

2.3. The rise of community-based trust—the sharing economy as a case in point

From the angle of institutional economics, a fundamental impact of today's large technology and social platforms is the creation of new technology-based intermediaries. They provide a trusted digital platform for large communities of people representing both the demand and supply side. These communities rely primarily on self-regulation to deliver the expected level of service quality and weed out the 'black sheep'. This mechanism replaces traditional observable social cues that facilitate face-to-face interpersonal communication (Lee et al. 2014). Through platforms, strangers can place an unprecedented degree of trust in each other, unlocking major economic benefits by dramatically bringing down the cost of trust building in areas such as accommodation or transport. Based on this new form of interpersonal trust, all parties can enjoy "wider variety, quicker transactions, lower costs and greater innovation." (Diekhöner 2018).

This discussion belongs to the context of the sharing economy or platform economy, epitomised by digitally-enabled, peer-to-peer exchange platforms such as Airbnb and UBER. Botsman (2012) even argues that trust is the 'currency' of this new economic paradigm. In general, Internet-based transactions make it difficult to build social bonds that support the development of trust. This is particularly true for transactions in which individuals operate on large commercial platforms. Whereas traditional B2C e-commerce is mainly based on bilateral trust between the customer and an e-vendor, consumer-to-consumer transactions in the sharing economy depend on a more complex trilateral configuration of trust towards peers, platforms and products (Hawlitschek et al. 2016). Digital trust cues, such as peer reviews, were instrumental in enabling the emergence of this new configuration of trust in the sharing economy.

Contrary to many pundits' expectations, the advent of digitalization did not herald the disappearance of the human touch in commercial interactions. Instead, the digital revolution, by enabling universal connectivity at negligible cost, has brought about what Armano (2007) dubbed a relationship renaissance.

Prior to industrialisation, trust was basically bestowed only on family members and close family friends. With the development of industry and trade, building a wider reputation for being a trustworthy partner became an effective route towards promoting economic self-interest (Mazzella et al. 2016). Increased trade and commerce also led to the formation of public and political institutions that reinforced trust through legally binding and enforceable contracts. As a result, business contacts between strangers with no previous interactions or direct social ties started to develop. And, last but not least, the emergence of powerful global brands further added to the institutionalisation and formalisation of trust.

> " *With the rise of e-commerce, ride hailing as much as credit and payment related ecosystems, the notion of trust has shifted from the traditional face-to-face value chain model towards a more diverse and digital multi-party platform model. This customer centric transaction model leverages on strong brands and the power of customer reviews, rather than on individual human-based interactions for trusted vendor relationships."*
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> **Tom Ludescher, CEO Asia & EMEA, Entsia, Singapore**

2.4. The erosion of institutional trust

As a corollary to digitalization, trust in incumbent corporations or organisations is becoming less important. On the one hand, this trend is attributable to an increasing

frequency of corporate scandals, wrongdoing or perceived underperformance. In the same vein, trust in media and expert knowledge is declining (Edelman 2019), especially when alternative forms of 'truth' are circulating in the public domain (Waisbord 2018).

On the other hand, the erosion of trust in institutions reflects a more structural force at work: institutional trust does not seem to be designed for the digital age (Botsman 2015). The notion of 'peer trust' is built on completely different concepts such as decentralised trust (see Figure 2). "The result of this shift is not only the emergence of disruptive new business models. Convention in how trust is built, lost and repaired—in brands, leaders and entire systems—is being turned upside down." (Botsman 2015).

Trust in families and friends, of course, is a constant characteristic of the fabric of societies but it no longer drives economic development as in the pre-industrialised age.

> " *The main thing to realize is that trust is an evolved mechanism for handling uncertainty between peers. In the digital age, there is less reason for individuals to trust institutions, because we should rather have institutions provide sufficient transparency such that individuals know that they are being dealt with fairly and appropriately, they don't just have to believe this."*
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> **Joanna Bryson, Associate Professor, Department of Computer Science, University of Bath, U.K.**

Figure 2: The changing role of trust in economic history

Pre-industrialisation	Industrialisation	Post-industrialisation
• Trust in small communities (family/friends)	• Trust in unknown individuals • Trust in institutions	• Trust in peers/virtual communities • Trust in technologies/algorithms

Source: The Geneva Association (2019)

2.5. Data privacy and security as new key determinants of trust

In a business environment in which customer data is an increasingly important source of competitive advantage, gaining and maintaining customers' trust will be crucial. In the era of sprawling connectivity, data ethics is becoming paramount to commercial success. In order to foster trust in the digital age, businesses must educate customers about their personal data and build credibility beyond a

mere compliance approach (Morey and Schoop 2015). Companies that are considered untrustworthy will find it difficult to collect certain types of data, regardless of the value offered in exchange, whereas firms with credible trust credentials will find customers more willing to share data (Accenture 2017). As part of a survey of more than 25,000 consumers in 33 countries, Accenture found that 57% will share information if they know it will not be sold or shared with third parties. 56% are willing to share information if they can be convinced of the effectiveness

of the data protection safeguards in place. The survey also reveals that the adequacy of a company's data-handling practices is a key driver of loyalty for 37% of consumers.

In the same vein, Cognizant (2015), based on online panel research conducted with more than 2,400 consumers across the Asia-Pacific region, including Japan and the Middle East, confirms the utmost importance of customers' trust in companies' ability to provide privacy and security. Open and transparent communication was found to be the top factor (67%) for building consumer trust, followed by product and service quality (61%), fair pricing (60%) and well-communicated data usage policies (59%) (see Figure 3).

> " *Machine learning is not the answer to everything and while it has undoubted predictive capabilities, it may fail in concrete real world contexts. It is therefore of utmost importance to explain well why a certain technology is used in a certain context, what concrete benefits it entails for consumers and to what extent these benefits have been validated in real life settings. Pricing differences should be clearly tied to real risk factors in a way that can be understood by consumers; spurious correlations identified by machine learned models must be avoided."*
>
> **Philipp Niklot Hacker, Postdoctoral Fellow, Lehrstuhl Professor Grundmann, Humboldt-Universität zu Berlin, Germany**

Van den Dam (2017), who surveyed nearly 21,000 consumers in 42 countries about consumer mindsets and digital trust imperatives, produced similar findings and identified 3 main determinants of trust. First, transparency: customers want to know how their data is used and by whom. Second, value exchange: obtaining a fair value in exchange for personal information and on transparent terms is another key ingredient to building trust. The third most relevant factor is security: consumers are increasingly concerned about the protection of their data, and they expect any trusted partner in commerce to guarantee data security (see Section 4 of this paper for determinants of trust specific to insurance).

2.6. Beware of a global 'techlash'

Having said all this, the revelations in March 2018 that the political consultancy firm Cambridge Analytica managed to access the personal data of as many as 87 million Facebook users and that this data was sold to third parties has shaken public trust in digital platforms and sparked scepticism among politicians and consumers alike as to whether the major technology companies can be trusted to police themselves. Simultaneously, there are mounting concerns over platform involvement in the spread of fake news and the alleged manipulation of electoral politics, privacy breaches and data misuse as well as the abuse of market power or their failure to adequately monitor and restrict online hate speech (Flew 2019). These factors could give rise to a 'global techlash' (The Economist 2018), potentially derailing current baseline scenarios for the future digital economy.

Figure 3: Key factors for customers to develop trust in a company

Open and transparent communication — 67%
Quality products — 62%
Fair pricing — 60%
Keep consumers informed about data-use policies — 59%

45% Would share their personal data if a company asks upfront and clearly states its use
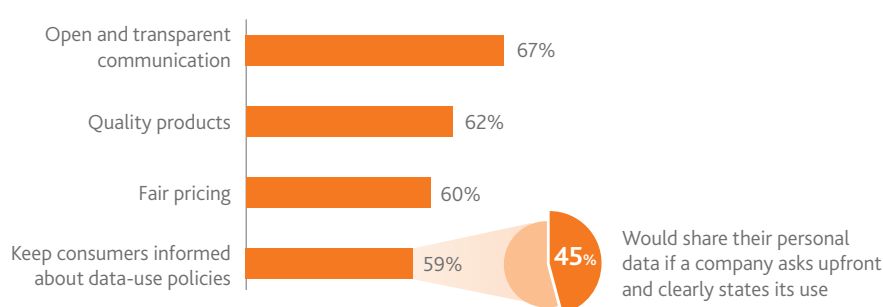
Source: Cognizant (2015)

3. The economics of trust in the insurance sector and companies

3.1. Trust in insurance—an economic perspective

In the context of insurance, trust can be defined as a customer's bet on an insurer's future contingent actions, ranging from paying claims to protecting personal data. Trust is the lifeblood of insurance business because its carriers sell contingent promises to pay, often at a distant and unspecified point of time in the future. The customer cannot assess an insurer's willingness and ability to fulfil these promises until a claim has been filed and settled (Lev 2005a, b).

As stressed by Nobel-prize-winning economist Kenneth Arrow as early as 1972, trust is a key ingredient in most exchanges but especially so in those transactions that involve an element of time. From that perspective, insurance is particularly dependent on trust. Also, viewing trust as the confident relationship with the unknown, and defining risk as the gap between the known and the unknown, risk and trust can be viewed as twin notions. In the absence of risk, trust does not serve any economic purpose.

In insurance contracts, trust is embedded in two ways. First, the insured when entering into the contract and paying the insurance premium upfront has to trust that the insurance company will pay promptly if and when the insured event occurs. As early as 1968 in his landmark paper on rational insurance purchasing, Jan Mossin showed that risk-averse individuals should be fully insured if there is perfect competition among insurers, there are no costs of intermediation and information gathering, there is a third party that enforces insurance contracts and, most relevant here, customers believe that insurers behave honestly and pay legitimate claims promptly. The latter is the essence of trust in insurers.

Second, the insurance company has to trust that the insured, once the premium is paid, does not act in a way that raises the probability of loss occurrence by adopting a riskier behaviour, known as moral hazard (Guiso 2012) (see Figure 4).

Figure 4: The dual and reciprocal nature of trust in insurance markets

3.2. Sources of customer distrust in insurance

Based on Guiso (2012), Figure 5 summarises the main sources of customer distrust in insurance contracts. First, insurers may be presumed to take advantage of the fact that contracts only pay out conditionally on the occurrence of an insured loss, with the onus on the policyholder. In this context, the frequent ambiguity inherent in insurance policies is a relevant source of distrust, especially when customers purchase complex products.

Second, distrust is further exacerbated by a lack of competition among insurers. Under such circumstances, the commercial cost of reputational damage is lower for insurers, which may encourage them to act opportunistically.

Third, customer distrust can arise even if insurers behave exemplarily. In their quest to minimise fraud, insurers may delay claims payments until their legitimacy is fully established. From the customer point of view, any unanticipated delay or complication in obtaining the indemnification is set to stoke suspicion and distrust. Ultimately, "(…) the existence of fraud may result in a novel type of adverse selection: the exit of the honest segment of customers from the market even when insurance companies act fairly" (Guiso 2012).

Fourth, distrust can be viewed as a corollary of risk aversion, with a positive relationship between the two. It is plausible to argue that trusting others means making oneself vulnerable to betrayal, which creates uncertainty. Therefore, an insurer's lack of credibility can make the prospect of a forthcoming payout appear risky, denting the product's appeal to the risk averse (Schechter 2007 and Dercon et al. 2014).

From today's perspective, insurers' data protection and usage practices might be added as a fifth relevant source of distrust to Guiso's framework (see Section 2).

Figure 5: Sources of distrust in insurance contracts

Source: The Geneva Association, based on Guiso (2012)

3.3. How trust affects insurance demand

From the protection gap angle, the most important question in the context of trust relates to its implications for insurance demand. Based on the pentagon of insurance demand (The Geneva Association 2019), we will examine the effects of trust on the various determinants of insurance demand (see Figure 6).[1]

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1   The role of sociodemographics as a determinant of trust in insurance is discussed in Section 4.

Figure 6: The pentagon of insurance demand
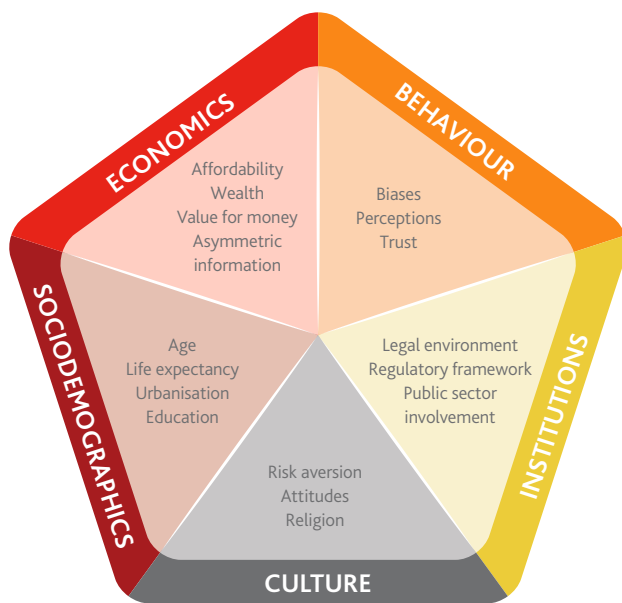
Source: The Geneva Association (2019)

Behavioural biases

Can increased levels of trust rectify some irrational and inconsistent patterns of human behaviour that are prevalent in insurance, too? To what extent can trust encourage people to buy insurance that is economically beneficial to them? In order to investigate these two questions we use the taxonomy of 'demand side anomalies' in insurance developed by Kunreuther and Pauly (2013). From the angle of behavioural economics, these anomalies can be explained either through biases that affect the perception of the value of insurance in a way that conflicts with economic theory or through more general information processing problems that consumers face in making decisions.

Some of these biases may translate into economically suboptimal demand for insurance. One example that is sensitive to trust is excessive discounting, i.e. an irrationally high preference for money today over money tomorrow. Trust in the availability and reliability of future insurance pay outs may reduce the discount rate applied by individuals and help mitigate the demand-side anomaly of excessive discounting, ultimately promoting insurance demand. Trust can also influence people's loss aversion, which is defined as the marginal disutility of loss (the premium payment) exceeding the marginal utility of gain (the potential indemnification and the peace of mind afforded by it), possibly reducing the former and increasing the latter.

A second set of explanations for demand-side anomalies focuses on more general information processing problems that consumers face in making decisions. One

example with potential relevance to trust is 'hyperbolic discounting' or the myopia bias: based on how they process information, people overweigh immediate reward or cost at the expense of longer-term benefit, which can lead to procrastination in decision-making and the so-called intention–action gap. Trust in insurers may encourage people to adopt a less myopic approach to decision-making.

Another example is *complexity aversion*, i.e. the avoidance of options that are complicated to evaluate. In the absence of trust, customers have a strong preference for simple product alternatives (Edwards 2019) which, with the rise of modern technologies, are also becoming increasingly available in insurance. With growing trust, however, complexity as an obstacle to buying insurance is expected to decrease in importance.

One may also argue that people's aversion to contemplating certain topics such as death or disability could be partially addressed through insurers' perception as trusted partners and providers of value-added services rather than pure payers who sometimes underperform at what customers consider to be the moment of truth.

Economic and institutional factors

Trust also affects a number of economic determinants of insurance demand. The first paper that establishes an empirical link between trust and the economics of insurance demand is Guiso et al. (2005). Using panel data on holdings of private health insurance, the authors validate the hypothesis that "more trusting individuals should buy more insurance because insurance is just another financial contract with delayed and uncertain repayment, where trust can play a role" (ibid). They show that trust has a positive effect on the decision to buy private health insurance and on the amount purchased.

Other researchers demonstrate that with increasing trust, customers' sensitivity to the price of insurance coverage decreases (Dercon et al. 2014, and Damtew and Pagidimarri 2013), which should lead to both a higher and more stable level of insurance demand.

We can also argue that with growing trust in insurance companies, customers' transaction costs in dealing with their carriers decrease. This primarily relates to the cost of obtaining information, which Lees and Rice (1965) identified as relevant obstacles to economically beneficial insurance purchases. The same reasoning applies to the cost of enforcing legitimate claims payments, especially in jurisdictions with weak legal institutions. Trust in insurance contracts is particularly important in such environments (Cole et al. 2013). But even in institutionally mature and efficient markets, the potential cost of legal action can deter people from purchasing insurance (Guiso 2012). By mitigating institutional weaknesses and reducing the

probability of having to take legal action against insurers, trust can stimulate insurance demand (Outreville 2013).

Cultural factors

Trust can also influence risk aversion, a determinant of insurance demand subsumed under cultural factors in The Geneva Association's pentagon of insurance demand (see Figure 6). Somewhat counterintuitively, a number of studies (for example, Cole et al. 2013) show that the likelihood of insurance purchases can be negatively associated with measures of risk aversion, whereas, as expected, there is a positive relationship between trust and insurance demand (Cai et al. 2009). Dercon et al. (2014) address this conundrum by demonstrating that in the presence of limited or impaired trust there can be a negative relationship between risk aversion and insurance demand. They argue that "a reduction in trust increases the likelihood of the 'worst-case' outcome, in which an insurance premium is paid and a loss is suffered, but no claim is paid. This outcome is particularly threatening to the risk averse (…)—precisely those who stand to benefit from insurance the most" (ibid). Hence, restoring trust could re-establish a positive relationship between risk aversion and insurance demand.

3.4. How trust affects insurance supply

Insurance fraud

Trust in insurance is reciprocal in the sense that insurers also have to trust their customers in order to offer efficiently priced and structured products. In that context, insurance fraud is a prevalent form of breach of trust. The potential for lower cost loadings is significant: in the U.S. alone, fraud in the property and casualty sector is estimated to cost the insurance industry more than USD 30 billion annually, about 10% of total incurred losses and loss adjustment expenses (Insurance Information Institute 2019).

Therefore, the cost loadings applied by insurers to reflect increased claims costs as a result of fraud are significant and lead to higher premiums for honest customers. Enhanced insurer trust in customers' prospective honesty would enable lower cost loadings, less restrictive product specifications and higher demand for insurance.

Asymmetric information

Another area where trust matters greatly is asymmetric information, considered a main source of insurer distrust in their customers. Traditionally, insurers and customers operate in an environment in which the characteristics of the services exchanged are not fully known to at least one of the parties. The most influential academic work on the consequences of this kind of information asymmetry is Akerlof (1970). Taking the market for used cars as an example, he shows that if buyers cannot distinguish

between a high-quality car (a 'peach') and a 'lemon', they will only be willing to pay a price for a car that averages the value of a 'peach' and a 'lemon'. As a result, sellers will only enter the market if they hold 'lemons', whilst 'peaches' will no longer be offered. This form of adverse selection, with high-quality cars no longer on offer, ultimately leads to a market failure.

The notion of 'lemons' and 'peaches' can be applied to insurance markets (high versus low risks) as well. If the insurer prices its business on the average loss probability of the entire pool of insureds, those with the highest risk will be the most likely to purchase coverage, and as a result the insurer is set to lose money. (The Geneva Association 2018).

A related challenge is moral hazard, as introduced by Arrow (1963). It describes the probability of a person exercising less care in the presence of insurance cover. This leads to an increase in the loss probability caused by the behaviour of the customer and distorts supply and demand in insurance markets. It is intuitive to argue that trust can go a long way in mitigating the adverse implications of information asymmetries which, ultimately, could lead to the collapse of (the supply side of) insurance markets.

In this context, digital technologies and modern analytics are emerging as potentially game-changing forces. Some pundits herald the end of the age of asymmetric information as follows: "Market institutions are rapidly evolving to a situation where very often the buyer and the seller have roughly equal knowledge." (Tabarrok and Cowen 2015). That is even true for health insurance where adverse selection is considered to be most prevalent. Wearable sensors, for example, can now monitor movement, heart rate, and heart rhythm and blood pressure. Other experts, however, caution that this 'brave new world' depends on the development of customers' future privacy preferences.

In the same vein, moral hazard can be overcome with ubiquitous information, creating transparency (and trust) for both insurers and insureds and aligning their respective interests. Motor insurance is a case in point: a common moral hazard challenge is that people, once insured, adopt more risky driving behaviour. In the past this problem was partially addressed through deductibles. Today, customers can opt to share real-time data collected by their car manufacturers with their insurers.

In conclusion, one can argue that as information becomes more prevalent and symmetrically distributed, traditional solutions to asymmetric information, including interpersonal trust building, may lose importance. In addition, some hitherto highly influential economic theories have been rendered empirically obsolete (Tabarrok and Cowen 2015) with the ascent

of transparency-boosting technology. And last but not least, technology (e.g. AI) also holds great potential to mitigate the second main source of insurer distrust in their customers, insurance fraud (OECD 2017).

Figure 7: How trust affects insurance demand and supply

Insurance demand

• Lower discount rates
• Reduced loss and complexity aversion
• Less myopic approach to insurance buying
• Lower sensitivity to price
• Reduced 'transaction cost'

TRUST

Insurance supply

• Lower cost loadings caused by fraudulent claims
• More symmetric distribution of information based on technology
• Lower risk of moral hazard (sharing of real-time data)
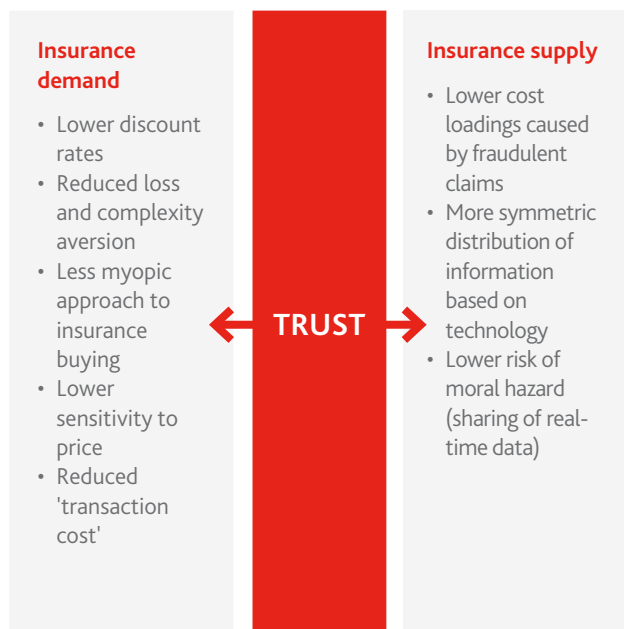
Source: The Geneva Association (2019)

3.5. How technology and advanced analytics affect the economics of trust in insurance

Over the past 10 years, innovative configurations of insurance and technology have started to build trust in new ways in order to mitigate demand- and supply-side deficits in trust (see Figure 8).

" *Digital has introduced an interesting new paradigm, which is both an opportunity and a challenge to building trust between consumers and businesses. There is no doubt that digital is an opportunity to increase the quality and frequency of interactions with consumers. At the same time, not taking advantage of digital to personalize, professionalize and humanize the relationship is a major source of frustration and mistrust for individuals and consumers. Studies and experience have shown that this new paradigm also applies to insurance.*"

Xuanbi Bill Song, CEO, ZhongAn Tech Global and COO & Director, ZhongAn International, Hong Kong SAR

Peer-to-peer insurance

One example is the technology-enabled rise in peer-to-peer trust and the amplification of word of mouth. This trend, as explored in Section 2 of this report, is now slowly entering the world of insurance as affinity groups organise themselves through online platforms. As a specific affinity group grows, the distributor (i.e. the platform) assists in identifying tailored insurance products designed by incumbent carriers or new entrants. For traditional insurers, peer-to-peer insurance platforms are a new way of tapping into unserved customer segments or better serving their existing customers.

The fundamental reasoning behind peer-to-peer insurance is that a community of like-minded people with mutual interests group their insurance policies, enhancing collective control, mutual trust and transparency as well as potentially reducing costs. Leveraging modern technology, peer-to-peer insurance is based on mutuality and traditional risk pooling, i.e. the roots of insurance. When a loss occurs, the pool indemnifies the individual. Peer trust facilitates risk pooling, since the pool's financial performance depends on its individual members. In peer-to-peer insurance, similar to traditional mutual insurance, excess premiums from the paid contributions are returned to the community members, arguably removing the conflict between carrier and the insured that is inherent in traditional (non-mutual) insurance. On that basis, peer-to-peer insurers hope to be able to pay claims quickly because they have less need for lengthy verification (McKinsey 2017). In less favourable years, on the other hand, the pool's reinsurance coverage is designed to absorb any shortfall (NAIC 2019). Generally speaking, peer-to-peer insurance could be viewed as Mutual Insurance 2.0, greatly enhanced by technology.

In such business models, trust in incumbent insurance companies is replaced with trust in peer groups and the technology platforms which organise them.

Blockchain

Another example is blockchain and its ability to generate trust decentrally. "The blockchain lets people who have no particular confidence in each other collaborate without having to go through a neutral central authority. Simply put, it is a machine for creating trust." (The Economist 2015).

In insurance, some start-ups have pioneered the use of blockchain to improve efficiency, transparency and trust in unemployment insurance, property and casualty and travel insurance, for example (IBM 2018). By enhancing trust, blockchain technology can facilitate the relationships among customers, insurers and service providers. It may reduce friction and transaction costs, help introduce simpler products and, more generally, lower the risk of doing business.

Ecosystem partners

In more advanced markets, ecosystem partners can serve as another example of technology-enabled trust influencers. China is frequently considered to be the undisputed forerunner in this respect, with Alibaba and Tencent (see box) having built strong levels of trust over the years with Chinese consumers on the back of partnering with hundreds of trusted ecosystem partners.

Mobile operators

Most developing countries are not properly served by incumbent insurers, given the challenging economics of collecting very low premiums and dealing with a large number of micro claims. In such markets, microinsurance organisations have successfully introduced insurance products by partnering with trusted mobile operators for more efficient distribution and simpler customer engagement. Through (non-smart) mobile phones the process of signing up for insurance (e.g. by paying through airtime credit) and settling claims is automated. These mobile operators enjoy a relatively high level of trust with their customers, and have enabled millions of people to have their first ever exposure to insurance (GSMA 2014).
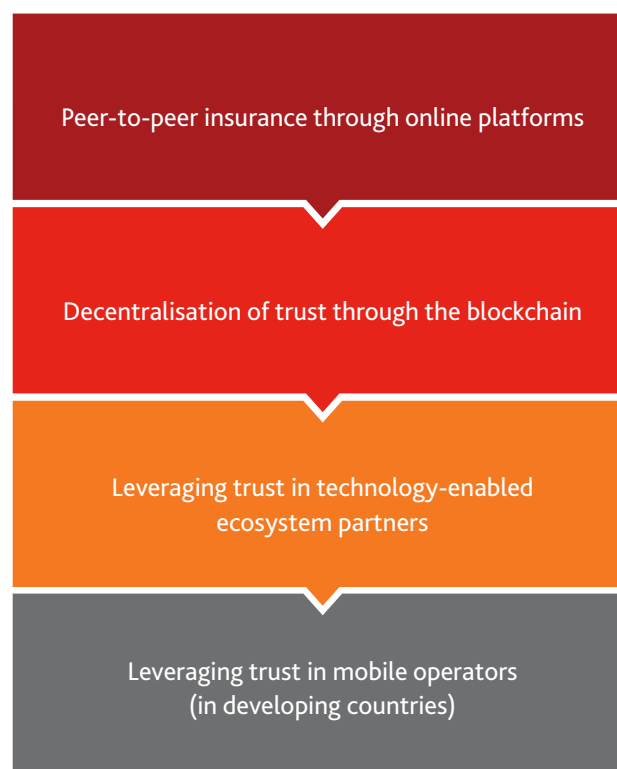
> *As of today, it is impossible to predict whether technology will promote or erode trust in insurers. The effects observed so far are ambiguous. In addition, we are still in a phase of transition as human interactions and relations continue to dominate insurance buying and selling for the time being."*
>
> **Luigi Guiso, AXA Professor of Household Finance, Einaudi Institute for Economics and Finance, Rome, Italy**

> *Technology should be a boon for insurers as long as they can adjust their business model for digital distribution. Key elements of this include simpler and more fractionalized products with more convenient purchasing and claims processes that boost trust. The challenges of this is that it significantly shifts the economics of distribution. Lower margins will mean the emphasis is on scale. Acquiring this scale will be expensive; those that can successfully execute trusted partnership opportunities will be most likely to succeed."*
>
> **Tom Duncan, Head of Insurance, Grab, Singapore**

WeSure, Tencent's insurance platform

WeSure operates on the back of the data-driven and social connection features of WeChat. Leveraging Big Data and artificial intelligence, it recommends suitably customised products to its users, drawing on an expanding network of partnerships with reputable health, motor, life and travel insurance companies such as China Taikang, China Pacific Insurance, PICC, PingAn and MetLife.

WeSure is hosted in the WeChat Mini Program ecosystem, a platform that most Chinese use every day. On that basis, WeSure leverages social network effects, especially through friend endorsements. WeSure reports a product referral rate of 50%, with those that receive referrals being twice as likely to buy.

Another trust-boosting factor is users' ability to make insurance purchases, inquiries and claims directly on the firm's popular instant messaging and lifestyle platform WeChat (https://www.tencent.com/en-us/index.html).

Figure 8: Boosting trust in insurance by harnessing technology

Peer-to-peer insurance through online platforms

Decentralisation of trust through the blockchain

Leveraging trust in technology-enabled ecosystem partners

Leveraging trust in mobile operators (in developing countries)

Source: The Geneva Association (2019)

3.6. Evolving customer sensitivities

As examined in Section 2 of this report, in a digital business environment in which customer data will be a key source of competitive edge, gaining and maintaining customers' trust in how data is used and handled will be crucial for insurers. Doing the bare minimum to meet compliance requirements will not suffice (see Morey and Schoop 2015). Insurers that fail to build this form of trust will struggle to collect certain types of data, regardless of the value offered in exchange. Against this backdrop, it is plausible to consider trust not only "as the non plus ultra of any interpersonal relationship" but "the number-one success factor in the digital age—in every respect" (Mäder et al. 2018).

In spite of numerous trust deficits, insurers appear to be in a promising position to hold their own against technology platforms, which are under increasing scrutiny for dubious data handling practices. According to Capgemini and Efma (2018), 58% of more than 10,000 personal lines customers in 20 mature and emerging economies cite privacy and security concerns as a key obstacle to buying cover from technology platforms. A general lack of trust is mentioned by 48% as an important deterrent (see Figure 9).

> " *Customer trust in insurers is still relatively strong. This is a promising foundation for the industry to take bold steps towards a broader, more relevant and partnership-oriented business model, enabled by technology. As demonstrated by various Bain & Company surveys, customers want their insurers to play a major role in emerging ecosystems, beyond their traditional function as payers. For insurers, this is a tremendous opportunity."*
>
> **Henrik Naujoks, Global Head of Insurance, Bain & Company, Hong Kong SAR**

Figure 9: Customers' top concerns with technology firms, 2018
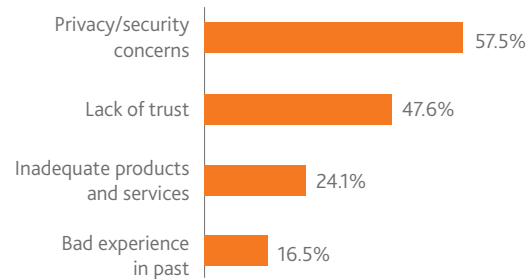
Source: Capgemini/Efma (2018)

In the same vein, only a small minority of 3% of the 7,000 people interviewed across 7 mature insurance markets as part of the Geneva Association 2018 Customer Survey named technology platforms as their preferred conduits for buying insurance. For the millennials segment, this share amounts to a still insignificant 7% (see Figure 10).

Figure 10: Customers' preferred insurance purchasing channels
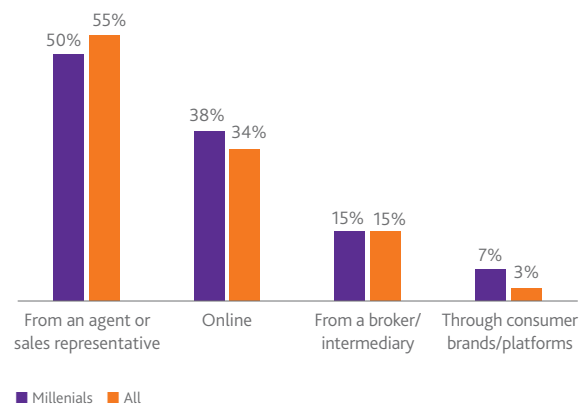
Source: Geneva Association 2018 Customer Survey

Insurers' future performance in terms of responsible data handling and usage will determine whether their current competitive edge is sustainable. Despite the findings from the Geneva Association 2018 Customer Survey this should not be taken for granted as, especially in high-growth markets, the vast majority of insurance customers would at least be open to purchasing insurance from new entrants (see Figure 11).

Figure 11: Share of customers who would be open to purchasing insurance from new entrants
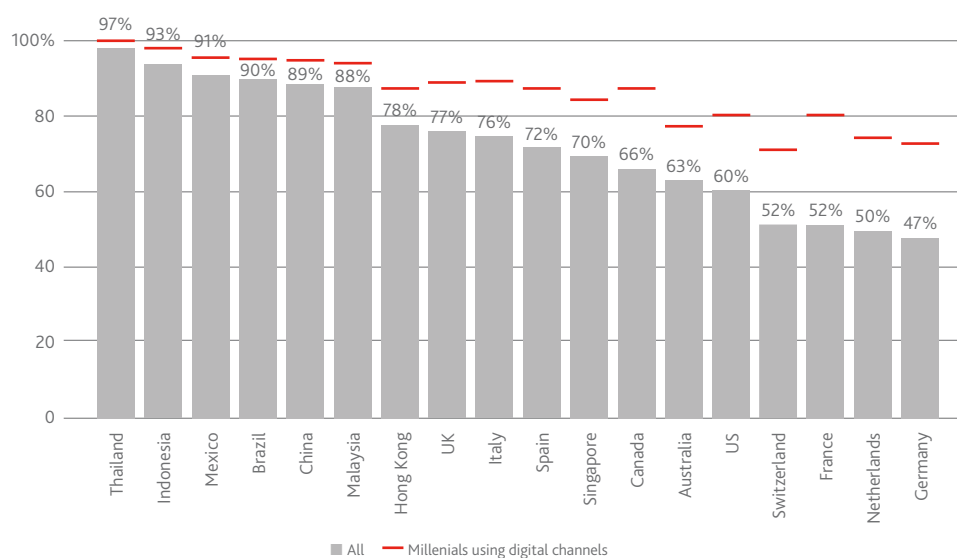
Source: Bain & Company (2018), based on an online survey of more than 174,000 insurance customers in 18 advanced and emerging countries

Another newly emerging dimension of trust relates to the integrity and interpretability of algorithms based on AI. These algorithms draw on the vast amounts of data people are producing in their daily lives. In order to draw relevant insight from ever increasing pools of data, insurers too are turning to a variety of AI tools such as sets of mathematical formulae designed to identify relationships within and between data pools (IBM 2019).

In insurance, underwriters are using such tools to identify new and more (relevant) risk factors that influence quotes, and to reduce the number of questions required to provide a quote. Likewise, claims managers are employing AI to cut processing and settling times. On the back of these trends, AI has paved the way for more automated forms of decision-making.

One major downside with relevance to customer trust are potential biases inherent in algorithms. As they are trained on historical data, they will almost inevitably reflect the biases in society. The gender bias is a case in point, as explored and proven by Hutson (2017). In the insurance industry, such biases entrenched in historical data may lead to automated decisions in underwriting, claims and marketing that can damage the reputation of insurers and the trust customers place in them.

> " *I think factors like AI will have a dramatic impact on the way we handle insurances and how convenient it is. But we can only increase trust by viewing the customer as a human being with concerns and fears—and by responding to these feelings and creating a positive experience around insurance."*
>
> **Tim Kunde, Co-Founder and Managing Director, Friendsurance, Berlin, Germany**

> " *Particularly with the rise of the application of machine learning to personalized insurance, consumers now have to trust not only the insurer and the surrounding legal regulation, but also the code employed to run the machine learning model. This implies that questions of algorithmic accountability and fairness become increasingly important in the world of insurance, too."*
>
> **Philipp Niklot Hacker, Postdoctoral Fellow, Lehrstuhl Professor Grundmann, Humboldt-Universität zu Berlin, Germany**

In order to reap the full spectrum of societal and commercial benefits from AI, it is crucial to build stakeholder trust first. Based on the above, the most urgent task is to recognise and address biases. Experts in the developer community believe that by thoroughly testing algorithms, biases can be detected and mitigated prior to the deployment of AI tools. This capability would greatly reduce the scope for biased automated decision-making that damages trust.

> **"** *The potential benefits of AI and data analytics in the insurance space are huge. There are however new threats and challenges arising from these new tools, forcing insurers to expand their integrity and business ethics into a transparent, fair and disciplined use of customer data. A good roadmap for what is to come are the FEAT (Fairness, Ethics, Accountability, Transparency) principles to promote responsible use of AI and data analytics that were recently published by the Monetary Authority of Singapore."*
>
> **Tom Ludescher, CEO Asia & EMEA, Entsia, Singapore**

Another important contributor to building trust in AI is the issue of algorithmic accountability. "That is to say, AI systems must be able to explain how and why they arrived at a particular conclusion so that a human can evaluate the system's rationale." (Banavar 2016).

> **"** *In the age of Big Data and advanced analytics, protecting customer data will no longer be sufficient for insurers to maintain and further strengthen customer trust. What is also needed is the customer's comfort with the ethics of the insurer's approach to employing data for pricing, underwriting and claims settlement. Those insurers who succeed in generating this new form of trust are likely to enjoy a major competitive advantage in the insurance markets of the future."*
>
> **Fred Wagner, Professor and Head of the Institute of Insurance, Leipzig University, Germany**

4. Determinants of trust in the insurance sector and companies

The Geneva Association 2018 Customer Survey offers a sobering picture of the current level of trust in insurers, based on responses from 7,000 individuals in 7 mature economies. Only a fifth of interviewees consider insurers trustworthy, with relatively minor differences across age groups (see Figure 12). Against this backdrop, there is a strong need for a better understanding of the key drivers of trust in insurers, as well as the underlying concept of insurance, and how to pull the respective levers.

Figure 12: Percentage of those who consider insurers trustworthy
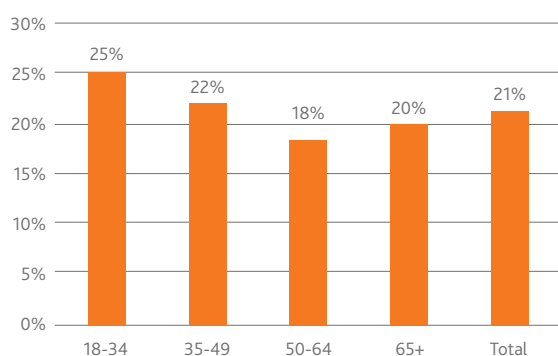
Source: Geneva Association 2018 Customer Survey

As pointed out by Courbage and Nicolas (2019), there is hardly any academic literature on the determinants of trust in insurers. One of the very few sources is Van Dalen and Henkens (2018) who examine trust in pension institutions, including insurance companies, in the Netherlands. They confirm what appears to be intuitive: the perceived integrity, competence, stability and benevolence of insurance companies drive their trustworthiness. In addition, they also show that there is a positive relationship between education and trust in insurers.

Another relevant source is Guiso (2012), who offers a comprehensive investigation into the importance of trust in determining the demand for insurance. Based on a small sample of Italian entrepreneurs, he also establishes a significant link between trust and the degree of satisfaction with insurance policies. Finally, Chen and Mau (2009) discuss the performance of an insurer's salesforce as a key determinant of customer loyalty and trust.

Based on these sources, we propose a triangle of determinants of trust in insurers (see Figure 13). These determinants offer valuable insights into both insurance companies and their regulators and lawmakers (see Section 5).

Figure 13: The triangle of determinants of trust in insurance (companies)
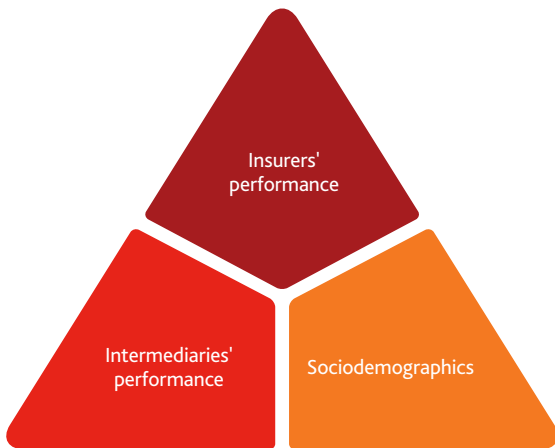
Source: The Geneva Association (2019)

4.1. The performance of insurers

How an insurer services a policy and settles claims is core to its broader reputation, which we define as a collectively agreed view of a company's performance in the past. Trust, on the other hand, points towards how people would expect this company to behave in the future. As such, trust can be viewed as a function of reputation, as shown by Guiso (2012) for the Italian SME sector.

> " *I don't think that the average customer pays any attention to the underlying trust mechanisms driving buying decisions. What customers look at is the outcome in terms of prompt and hassle free claims payments."*
>
> **Matteo Carbone, Founder and Director, IoT Insurance Observatory, New York, U.S.**

Using data from a recent Geneva Association 2018 Customer Survey, Courbage and Nicolas (2019) empirically analyse individual trust in insurance companies as a dependent variable on a large set of explanatory factors, including aspects of customer experience. As expected, the authors show that past experiences with insurance, both favourable and unfavourable, strongly influence trust in insurance, with the negative effect of a bad experience outweighing the positive effect of a good one. Again, not surprisingly, disappointment with insurers' claims management practices has the most adverse impact on trust in insurance.

As discussed in Section 3 of this paper, the way insurers handle sensitive customer data is set to develop into another major determinant of trust in the digital economy. In addition, it offers insurers scope for competitive differentiation against tech platforms, which have come under increasing scrutiny for their data collection, handling and usage practices.

> " *Going forward, the quality of service is expected to remain the main determinant of trust in insurers. At the same time, customers will become more sophisticated on the back of improved access to information. This technology-driven development will force insurers to further step up their game."*
>
> **Woody Mo, President and CEO, eBaoTech Corporation, Shanghai, China**

Figure 14 shows the most relevant raw data from the Geneva Association 2018 Customer Survey. Aspects related to claims are the most frequently mentioned source of customer dissatisfaction, followed by complicated and confusing policy wordings and a perceived mismatch between costs and benefits (The Geneva Association 2019).

Figure 14: Most frequently mentioned sources of customer dissatisfaction
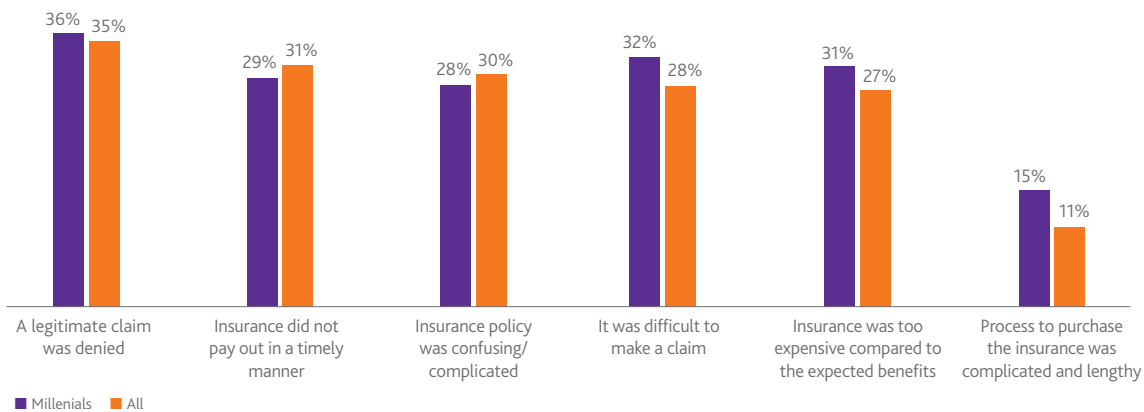
Source: The Geneva Association (2019)

> *Past direct experience, a well-known brand and referrals by family members and friends are today's main determinants of trust in insurers. Going forward, this will not fundamentally change but we are likely to see an increased relevance of online reviews."*
>
> **Matteo Carbone, Founder and Director, IoT Insurance Observatory, New York, U.S.**

4.2. The performance of intermediaries

It is intuitively plausible that those individuals and organisations at the frontline of the customer interface are critically important to the reputation and the level of trust placed in the insurance carrier. In this context, the Geneva Association 2018 Customer Survey reveals major shortcomings in trust in insurance agents, with less than a third of respondents considering them trustworthy (which, however, compares favourably with customer trust in insurers themselves—see Figure 12). Only the elderly place slightly more trust in agents (see Figure 15). Therefore, for the insurance industry, any effective strategy to rebuild trust must encompass those who are ultimately closest to the customer and their needs and concerns.

Figure 15: Percentage of those who consider agents trustworthy
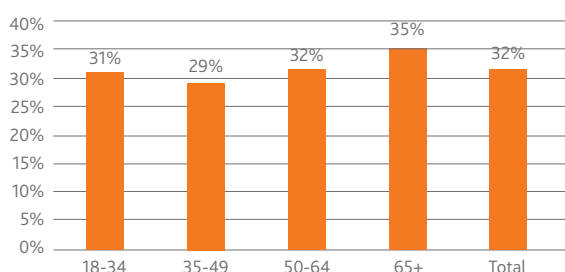
Source: Geneva Association 2018 Customer Survey

Based on data from Taiwan's life insurance industry, Chen and Mau (2009) show empirically how a sales agent's behaviour can build or deplete both customer trust in the salesperson and in the insurance company. The authors demonstrate that the agent's ethical sales behaviour is crucial to winning customer loyalty through customer trust, confirming previous studies on non-insurance segments of the economy according to which the customer's perception of face-to-face interaction with sales staff is one the most important determinants of customer trust and, as a result, loyalty.

4.3. Sociodemographics

Courbage and Nicholas (2019) empirically study the role of sociodemographic factors such as age, gender and education as determinants of trust in insurance (as opposed to individual insurers), again based on the Geneva Association 2018 Customer Survey. They offer insights into the insurance industry as a whole (rather than just single classes of business) and use a cross-country approach, covering 7 mature markets in North America, Europe and Asia. The authors find that trust in insurance is higher among females, in line with previous literature on trust in banks (see, for example, Knell and Stix 2015). The authors also establish that trust in insurance decreases with age, confirming previous findings on trust in banks (Ennew and Sekhon 2007). And finally, Courbage and Nicholas (2019) show that insurance literacy exerts a strong positive influence on the level of trust in insurance. Those who understand how insurance works and potentially benefits its customers may be less sceptical about insurance and place more trust in it.

5. Conclusion— A multi-stakeholder road map for building trust and tackling protection gaps

In order to ensure that insurance markets are optimally lubricated with trust, 3 stakeholder groups need to act in concert: insurers (and their intermediaries), customers, and lawmakers/regulators. Implementing the action items summarised in Figure 16 and discussed in greater depth below would go a long way to narrowing the gap between needed protection and available or purchased protection.

> " How to narrow protection gaps through building trust? First, insurers should document their underwriting and investment decisions so that customers can see that they are getting good value for money. Second, defend the data of customers, be able to show what is known about the customer to the customer, and to assure them through third party inspections that this is not known to anyone else. And third, do not create barriers to transferring to other insurers; rather transparently offer a superior product for your targeted customer base."
>
> **Joanna Bryson, Associate Professor, Department of Computer Science, University of Bath, U.K.**

Figure 16: Trust building in insurance markets—A multi-stakeholder road map

Insurers/intermediaries
- Better claims processes
- Less complex products
- Less pushy sales practices
- Deliver more transparency
- Engage customers
- Borrow trust from non-insurers
- Harness peer-to-peer trust
- Improve self-regulation

Regulators/Policymakers
- Protect customers
- Promote industry competition

Customers/Organisations
- Support collective action against fraud
- Share personal data with trustworthy insurers

Source: The Geneva Association (2019)

5.1. Insurers and their intermediaries

Facilitate claims settlement and increase simplicity and transparency of products

As we have shown before, an insurer's performance across the entire value chain is a key determinant of customer satisfaction and trust. Based on the Geneva Association 2018 Customer Survey, we can illustrate the most critical parts of the value chain in terms of building and maintaining trust. Figure 17 is based on respondents' answers to the following question: 'What kind of negative experiences with insurers have you had or heard about?' (see Figure 14 for some of the underlying data).

For building customer trust, product development and claims settlement are the two most relevant links in the insurance value chain. Based on the Geneva Association 2018 Customer Survey, confusing and complicated insurance products as well as delays in or outright denial of claims payments and tedious claims filing procedures matter most to making or breaking trust.

> **"** *In order to prompt people to buy insurance to an extent that is economically beneficial (which would close insurance protection gaps) insurers have to foster trust by selling much simpler products and, at the same time, improve the promptness of claims payments."*
>
> **Luigi Guiso, AXA Professor of Household Finance, Einaudi Institute for Economics and Finance, Rome, Italy**

Technology offers major opportunities for reducing product complexity, especially in short-tail commodity business such as motor, travel or term life insurance. In the area of claims handling, Guiso (2012) suggests an increased differentiation between honest and (potentially) dishonest customers. As argued before, people quickly lose trust in an insurer that delays settling a legitimate claim. This delay may be attributable to the need to apply procedures which take into account potentially fraudulent customer behaviour, but this is unfair to honest customers. For the insurer, this loss of trust could be particularly damaging as it affects the most honest customer segments. Against this backdrop, insurers may want to more systematically discriminate between customers with a proven record of honesty and customers who are believed to be more likely to cheat (Mueller 2013). Drawing on AI, there is also scope for increased discrimination between claim types or characteristics that are less likely to involve fraud. There are further examples for building trust through the claims process, e.g. claims settlers handing out checks to natural catastrophe victims for immediate relief (partial advance payments) on the ground, or enabling customers to check the status of their claim online.

Driven by technology, transparency has emerged as an additional overarching prerequisite to building trust. Rozar (2017) offers three specific recommendations to insurers. First, deliver transparency on insurance products' price and value. Insurers can, for example, join digital marketplaces, which create a one-stop shop for consumers to research, select and purchase insurance. Second, align incentives through technology-enabled customer engagement, with incentivised wellness programmes being one popular example. This approach effectively aligns the interests of the policyholder and the insurer. Furthermore, it boosts transparency on both sides. And third, insurers can utilise data and analytics to simplify and clarify the underwriting process for consumers and, at the same time, mitigate fraud and adverse selection (Rozar 2017). Having said this, insurers and their customers need to be aware of the associated trade-off between (cost) efficiency and privacy. In addition, some customers may perceive technology as adding to the opacity of insurance. In order to counter this perception, insurers need to shed as much light as possible on the design and governance of automated underwriting, pricing and claims settlement processes.

According to Figure 17 and upon closer inspection of the Geneva Association 2018 Customer Survey, data sales and marketing and customer service are other areas, albeit less critical, for improving customer satisfaction and trust. Pain points include pushy sales practices which do not cater to customers' genuine needs, lengthy purchasing processes and a lack of post-sales interaction with the customer.

" *The consumer of today, particularly if they are purchasing through digital channels, looks for, firstly, simplicity of product, rather than complex product structures with multiple benefits but also exclusions that create uncertainty, secondly, clarity of communications, favouring insurers and distributors that are able to succinctly communicate the benefits of their product and, third, speedy claims processing—long processing times that leave the consumer uncertain of the claim status is a great way to erode trust."*

Tom Duncan, Head of Insurance, Grab, Singapore

" *With ASEAN regulators' increased focus on financial literacy consumer sovereignty is set to reach much higher levels. Consumers will be demanding more transparency, ease of interactivity and access to information. Insurers have no choice but to evolve their business model and employ technology to offer a new quality customer experience, for example through a much faster turnaround time or a new approach to policy documentation which enables an easy understanding of the policy terms and conditions."*

Khoo Ai Lin, Group CEO, Tune Protect, Kuala Lumpur, Malaysia

" *By becoming more transparent, insurers enable customers to make more rational decisions about the merits of insurance protection. They will be in a better position to weigh the economic benefits of buying insurance against the cost. In addition, transparency, all other things being equal, will boost trust in insurers. Against this backdrop, harnessing technology for enhancing transparency and building trust can go a long way in narrowing protection gaps, especially in emerging markets."*

Woody Mo, President and CEO, eBaoTech Corporation, Shanghai, China

Figure 17: The insurance value chain as a trust heat map: what customers consider to be the most critical areas

■ Very important
■ Important
■ Less important

- Confusing and complicated products

- Selling unnecessary products
- Lengthy purchasing process

- No consistent contact person
- No follow-ups

- No timely payouts
- Denial of claims
- Difficult claims filing

Source: The Geneva Association, based on its 2018 Customer Survey

Borrowing trust

Another novel approach that goes beyond addressing performance issues across the traditional value chain is to 'borrow' trust. Insurers may, for example, enter partnerships with non-insurance companies (such as banks, affinity groups or automobile clubs) or influencers (a very popular model in China) to gain access to new customers through the implied endorsement of a trusted brand or individual (Rozar 2017). Such partnerships are also essential to extending the business model of insurance beyond its traditional centre of gravity: the payment of claims.

> " *The future business model of insurance will gravitate towards the early stages of the value chain such as product design. The traditional focus on claims payments will lose in importance with decreasing loss frequencies on the back of Internet of Things applications. Therefore, capabilities in loss prevention and risk advisory as well as the provision of individualised real-time solutions at the 'point of need' will become crucial to building customer trust and fostering customer loyalty"*
>
> **Fred Wagner, Professor and Head of the Institute of Insurance, Leipzig University, Germany**

Likewise, affinity platforms and peer-to-peer insurance marketplaces may help mitigate trust barriers on the part of customers who frequently feel more confident with their insurance choices based on peer behaviour (Guiso 2012).

> " *The insurance industry has a huge trust issue, partly due to a lack of transparency and partly because conventional products make customers pay for insurance even though they never use them. This is why peer-to-peer insurance models were developed, rewarding staying claims-free within groups and making insurance more affordable."*
>
> **Tim Kunde, Co-Founder and Managing Director, Friendsurance, Berlin, Germany**

Improve self-regulation

Misbehaviour by a single insurer can damage customer trust in the insurance industry at large. These negative externalities ('A rotten apple spoils the whole barrel') constitute a strong case for collective industry-wide measures which pre-empt misbehaviour beyond existing legal norms. Guiso (2012) suggests "(…) codes of conduct and strict rules of behaviour that are shared

by industry members and (common) procedures to punish malpractice" to mitigate adverse effects from misbehaviour by a single company. Examples include the setting of industry norms such as fiduciary duties and best advice rules in distribution.

In summary, there are many levers to pull for insurers to boost sales and narrow protection gaps through improved customer trust. Figure 18 illustrates this significant potential which, based on the Geneva Association 2018 Customer Survey, exists with half of the customer base in mature economies. In emerging markets, where protection gaps matter most, this share is expected to be even higher, given a widespread lack of experience with financial institutions, the relatively low presence of well-known and trusted insurer brands and a number of structural legal and regulatory shortcomings.

Having said all this, trust building is just one side of the coin. All measures discussed above should also be viewed from a trust resilience perspective, i.e. the durability and robustness of trust. Adapting Warren Buffett's famous quote, one can argue that it takes decades for an insurer to build a reputation and a few minutes to ruin it, e.g. through one case of non-payment. "If you think about that, you'll do things differently."

Figure 18: Percentage of those saying that increased levels of trust in insurers and intermediaries would encourage additional insurance purchases
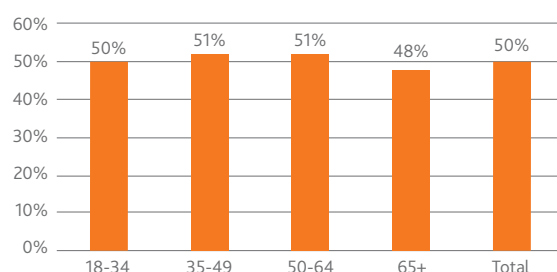
Source: Geneva Association 2018 Customer Survey

> " *Standalone, trust will not make protection gaps disappear. However, it is an indispensable 'hygiene factor' that underpins crucial efforts such as improving access to insurance, developing more flexible and tailored products and building awareness of the general and product-specific benefits of insurance. In the absence of trust, all these endeavours are foredoomed to fail."*
>
> **Henrik Naujoks, Global Head of Insurance, Bain & Company, Hong Kong, SAR**

5.2. Customers and their organisations

Support collective action against fraud

As shown before, customer behaviours such as fraud and adverse selection hinder the establishment of mutual trust. Based on experience, insurers apply a cost loading to account for fraudulent claims. This loading distorts insurance markets and leads to a suboptimal level of aggregate demand, in addition to being unfair to the vast majority of customers. Customer organisations increasingly join other stakeholders such as insurance and intermediary associations as well as government entities in collective efforts to fight insurance fraud. Examples include Citizens Advice and the Financial Services Consumer Panel in the U.K.(CII 2016). Customer organisations appreciate that insurance fraud is a serious issue that harms the interests of the honest majority of customers. They work with other stakeholders to stem opportunistic fraud, with the overall objectives of ultimately reducing costs for customers, raising the public profile of insurance fraud as a criminal activity (without alienating the vast majority of honest customers) and promoting awareness of the crucial role played by claims management companies. In addition, they start advocating the use of modern technologies (e.g. AI and predictive analytics) to combat fraudulent behaviour (CII 2016), which many experts view as the most effective remedy to fraud in the future.
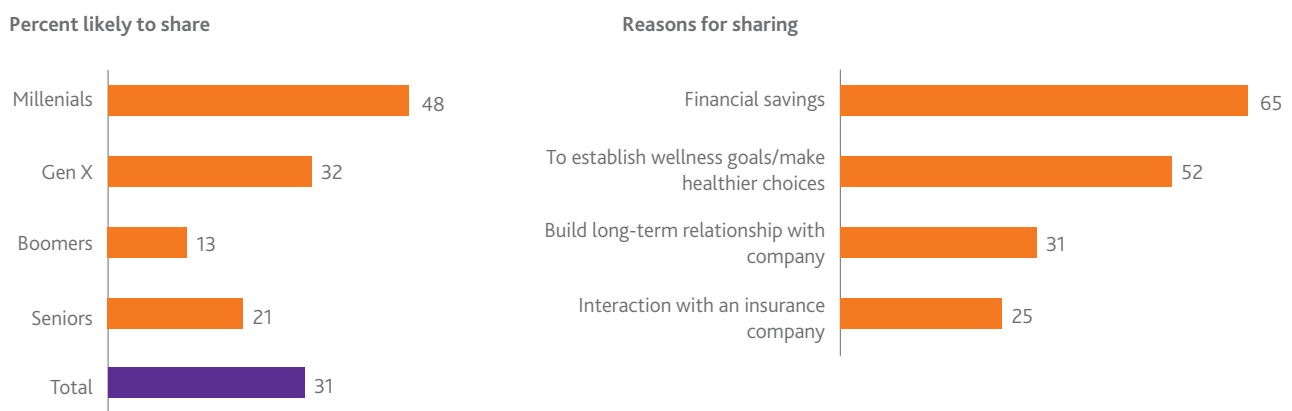
Another example is microinsurance with some form of community involvement in order to mitigate moral hazard, improve claims verification, and build consumer trust (Holzheu and Turner 2018).

Share personal data with trustworthy insurers that have a demonstrable record of proper data management

The other major area of concern for insurers is adverse selection. It occurs when an information deficit on the part of insurers allows a higher-risk group (such as smokers) to purchase cover at the same price as a lower-risk group. Because high-risk individuals pay a relatively low price, they buy additional insurance. Insurers, in order to cover increasing losses, need to raise rates for everyone, prompting low-risk customers to drop out of the company's risk pool. This outcome is not in the interest of those low-risk customers who, based on their behaviour, suffer fewer losses. Insurers, especially for short-term and on-demand contracts, place their hopes in automated underwriting methods, which capture customer information in real time, and modern analytics, which enable insurers to process and mine vast amounts of data and information.

For this approach to work, customers need to be ready to share additional data with their insurers. Figure 19 shows that almost half of U.S. millennials are likely to share personal data with life insurers. It is also interesting to note that the third most frequently mentioned reason for doing so is to build a long-term relationship with insurers based on mutual trust.

Figure 19: Sharing health and activity information with U.S. life insurers

Percent likely to share

Millenials	48
Gen X	32
Boomers	13
Seniors	21
Total	31

Reasons for sharing

Financial savings	65
To establish wellness goals/make healthier choices	52
Build long-term relationship with company	31
Interaction with an insurance company	25

Source: LIMRA (2016)

" In order to remain a trusted partner in the digital economy, insurers need to preserve their role and reputation of financial strength and reliability as regulated long-term financial institutions, while at the same time innovate and extend their reach and capabilities to adopt new approaches to underwriting, pricing and reserving. Insurance also needs to become easier to understand and deal with and more affordable to be able to reach beyond current boundaries and current distribution channels, and address risks that today are not covered. And finally, insurance needs to get closer to people's daily lives and address more personalized situations and scenarios, especially catering to the younger consumers and audiences."

Xuanbi Bill Song, CEO, ZhongAn Tech Global and COO & Director, ZhongAn International, Hong Kong SAR

5.3. Policy makers and regulators

Protect customers

Effective customer protection is indispensable to insurance markets lubricated by trust. There are two main objectives pursued by regulators in this context. First, and not undisputed, promote access to insurance. This objective generally comes with regulations that interfere with the market mechanism for rate determination or through more subtle means such as restrictions on premium rating factors. From an economic perspective, there are doubts about the rationale for such restrictions if insurance markets are competitive (Tennyson 2016).

Second, ensure insurers' claims-paying ability and solvency (Milanova 2018), including timely prudential regulatory intervention (Schuckmann 2007).

" In high growth markets in particular, strong market conduct governance is needed to drive the professionalism and transparency of the sales and acquisition process, be it traditional channels or more recent online aggregators, peer-to-peer community insurance, etc. In order to maintain customer trust, these requirements for distribution channels have to ensure the implementation of effective score cards in terms of new business generation, persistency and renewal business, product transparency, disclosure of compensation and commission levels and customer complaints."

Khoo Ai Lin, Group CEO, Tune Protect, Kuala Lumpur, Malaysia

Promote industry competition

Guiso (2012) argues that there is a positive relationship between an insurance market's competitiveness and the degree of customer trust. In a competitive market, the cost of dropping an underperforming insurance carrier in favour of a competitor is relatively low. This keeps all insurers on their toes, given the high cost of customer attrition. Customers who are 'empowered' by competition are more willing to give insurers the benefit of the doubt and run the risk of being disappointed. Having said this, the cost of dropping an insurer also depends on the duration of contracts and should therefore be more feasible in short-tailed non-life insurance.

Using the deregulation of the U.S. banking system as an example, Francois et al. (2009) show that increases in competition translate into higher levels of individual trust in banks.

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The Geneva Association 2018 Customer Survey in 7 mature economies reveals that for half of the respondents, increased levels of trust in insurers and intermediaries would encourage additional insurance purchases. This report goes even further by addressing the shifting determinants of customer trust in the digital age. In emerging and mature markets alike, technology offers new opportunities for fostering trust and tackling protection gaps. Insurers' future performance, in terms of responsible data handling and usage as well as algorithm building, will determine whether their current competitive edge is sustainable.