

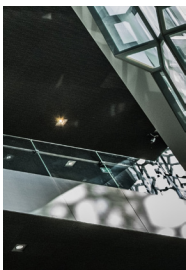
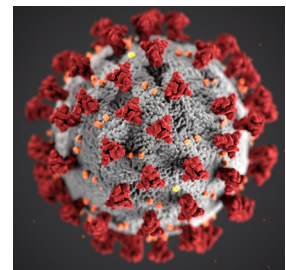


# The future of insurance

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Consumer expectations report

May 2022



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# Executive summary

There is always volatility in the insurance market but, clearly, the pandemic prompted an unprecedented upsurge in claims in certain areas. In February 2021, the Association of British Insurers estimated that UK insurers expected to pay £2.5 billion for claims made during the first year of the pandemic alone.

Two years on from the start of the pandemic, the dynamic of the insurance industry is much altered. According to the FCA, by March 2022, payouts have already exceeded £1 billion for policies affected by the FCA test case. The hard market has been exacerbated by the impacts of the pandemic – particularly for products such as cyber insurance. The FCA has seen a need to bring in greater regulation and new rules around Consumer Duty are expected in July 2022.

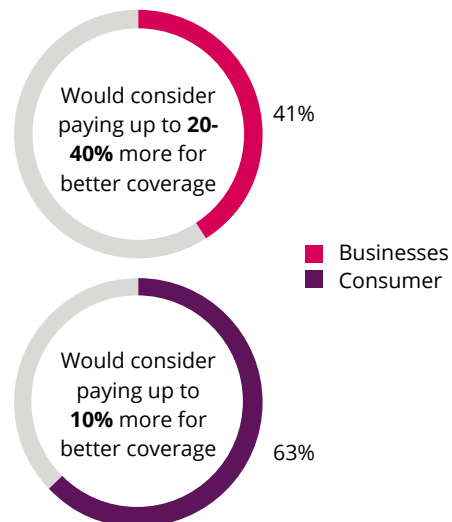
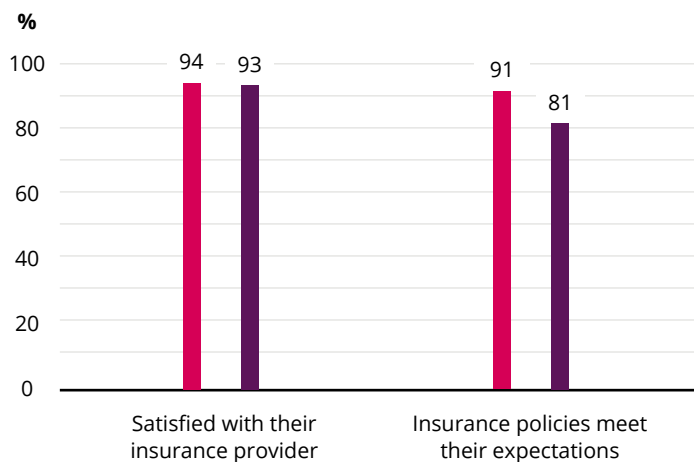
Despite these significant challenges, and the FCA's intervention, our primary research found that the vast majority of businesses and consumers feel positive about their insurance providers and most of the insurance policies they buy.

This Consumer Expectations report, commissioned by DWF, is based on the views of 2,000 consumers of personal insurance and 403 business insurance

purchasers, in the UK. In summary, and perhaps counter-intuitively, it reveals that the pandemic has positively reinforced buyers' perceptions of insurance, with nearly half of consumers (41%) and businesses (42%) reporting that the pandemic has made them appreciate the importance of insurance policies much more. The vast majority, 93% of consumers and 94% of businesses, are satisfied with the service of their current insurers.

That said, both groups believe that the insurance buying process could be improved, with 66% of consumers and 70% of businesses stating that choosing or buying an insurance policy is always a difficult process. Both sets of buyers are aligned on calling for clearer policy documents. They want policies to be written in plain English with greater clarity around product information, especially more transparent explanations of any caveats or exclusions.

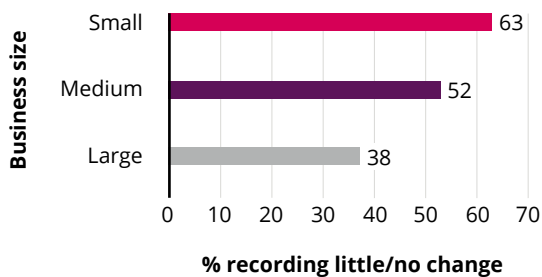
## By and large, businesses and consumers are satisfied with their insurance and would even be prepared to pay higher premiums:



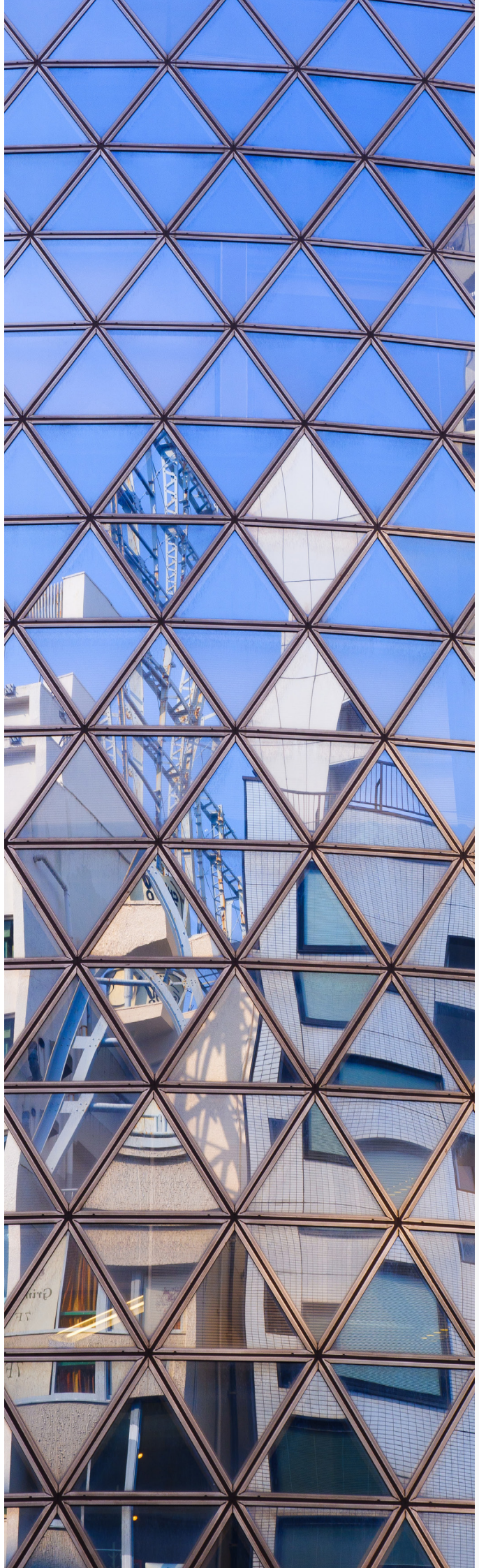
# 1. Impact of the pandemic on perceptions of insurance

Overall, half of businesses say that the pandemic has changed their views on insurance, but opinion differs depending on the size of the business.

The smaller the business, the less impact seems to have been felt, with 63% of smaller businesses recording little or no change in their attitudes, compared with 52% of medium-sized businesses and 38% of large companies.



An even greater proportion of consumers (78%) attest to not having changed their views on insurance because of COVID-19. Nor have their insurance priorities altered since the onset of the pandemic: premium/cost, scope of cover and excess remain their top three concerns.







## Managing expectations

In general, businesses and consumers still believe their policies meet their expectations. A very substantial 92% of businesses believe their insurance policies meet their expectations either fully (61%) or partially (31%). Likewise, 81% of consumers overall believe their policies meet expectations.

These headline figures are clearly positive. However, the detailed picture is more nuanced, with respondents saying that while certain types of policy meet all their expectations others performed less well. Of those policies that met some of buyers' expectations but failed on others, perhaps the most notable for business respondents, are business interruption (38%), credit risk (44%) and key-man (37%). Consumers say their expectations were only partially met for health (28%), disability (29%) and travel (27%) insurance policies.

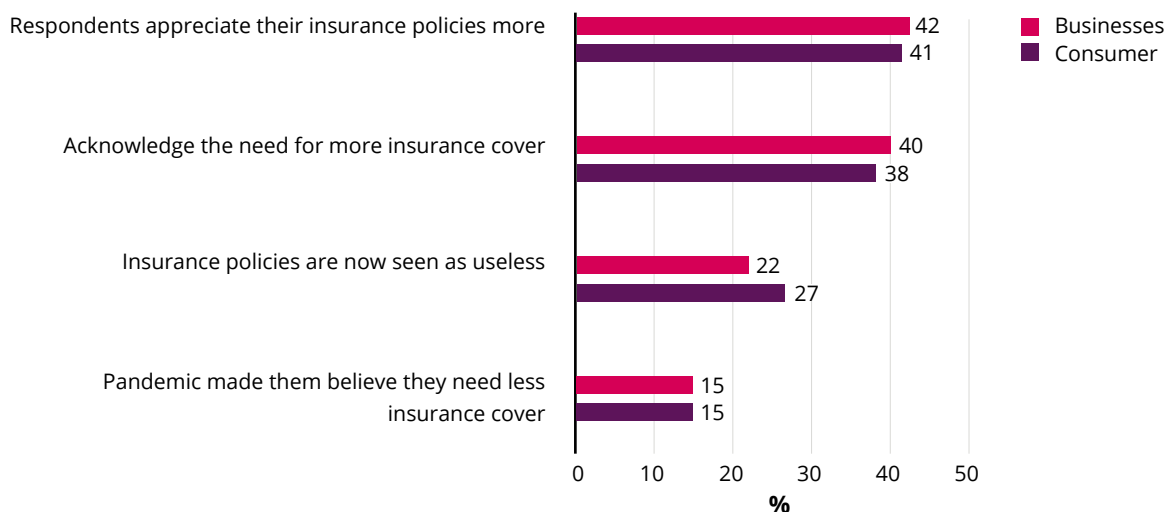
Both groups share similar perspectives on why their insurance policies failed to meet their expectations, identifying the top three pain points as:

- Lack of flexibility during the pandemic: businesses 44%; consumers 37%
- Confusion around policy premiums and their corresponding levels of coverage: businesses 35%; consumers 29%
- Lack of clarity around policy terms and conditions: businesses 32%; consumers 30%

Where perceptions of insurance have shifted due to the impact of the pandemic (50% of businesses and 22% of consumers) these have been largely positive. A substantial proportion of respondents either appreciate their insurance policies more (42% of businesses and 41% of consumers); or they acknowledge the need for more insurance cover (40% of businesses and 41% of consumers).

However, for 27% of consumers and 22% of businesses, some or most of their insurance policies are now seen as useless, and 15% of both groups say the pandemic has made them believe that they need less insurance cover.

## Of those whose perceptions have changed:

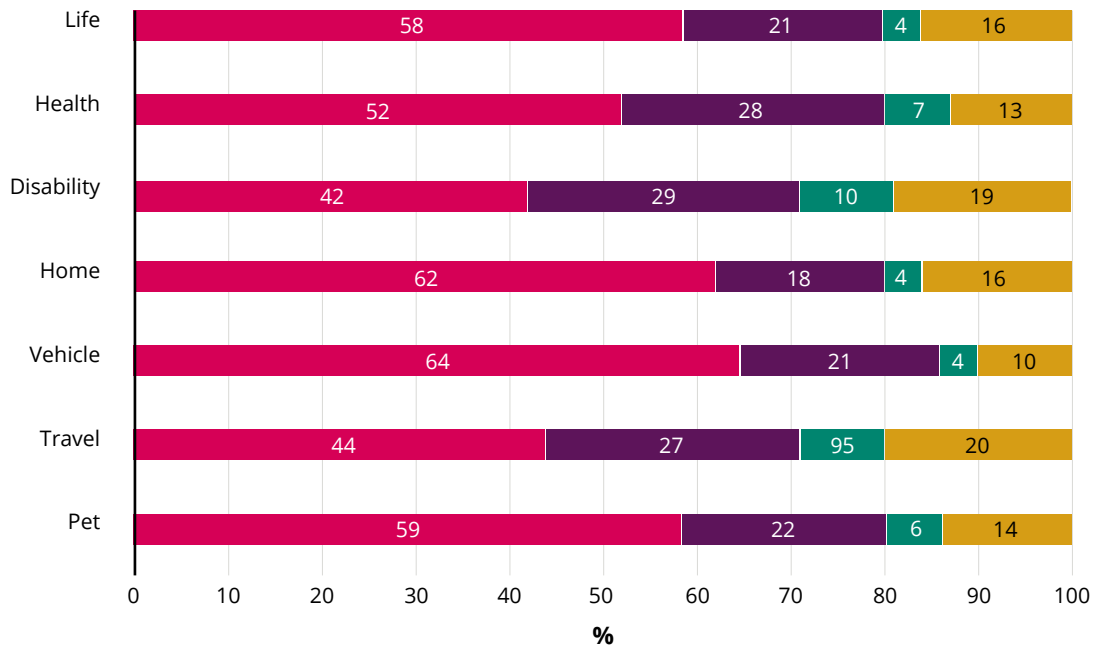


**Better than expected**

**Business policies:**



**Consumer policies:**



■ Met all expectations    
 ■ Met some but failed on others    
 ■ Didn't meet any expectations    
 ■ Not applicable

## Satisfaction and trust

### Satisfaction guaranteed (almost)

Despite the significant disruption caused by the COVID-19 pandemic, more than 90% of businesses and consumers are satisfied with their current insurance providers.

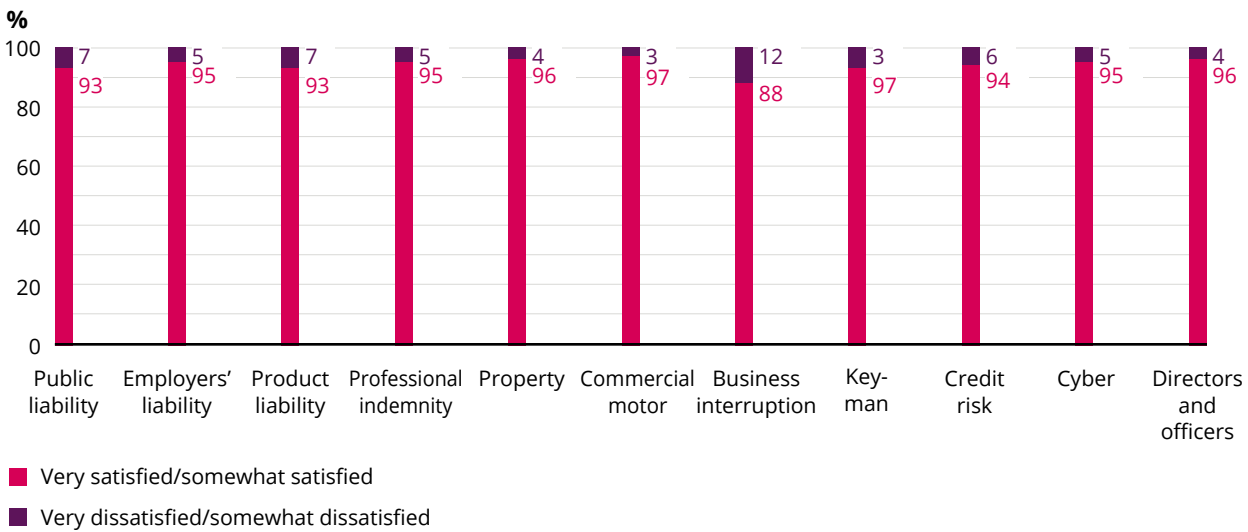
However, split by age, consumers clearly see things differently from one another with 96% of over

45s declaring their satisfaction with every type of insurance policy, while for the 18 to 24 year-old category that figure drops to 87%. In terms of specific policy types, consumers are most satisfied with their home (95%) and vehicle (94%) policies, and most dissatisfied with their disability policies (22%).

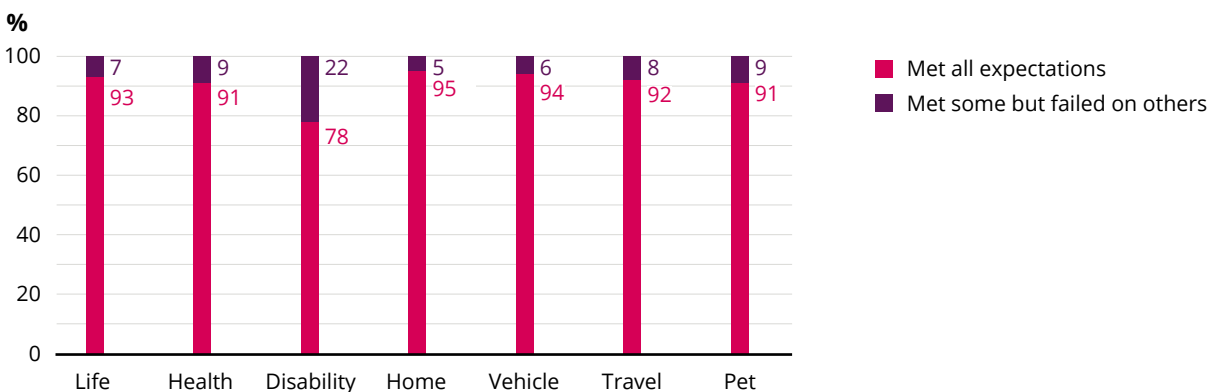
### Scrutiny on satisfaction

Overall, 94% of businesses and 93% of consumers are satisfied with the service of their current insurers

#### Business policies:



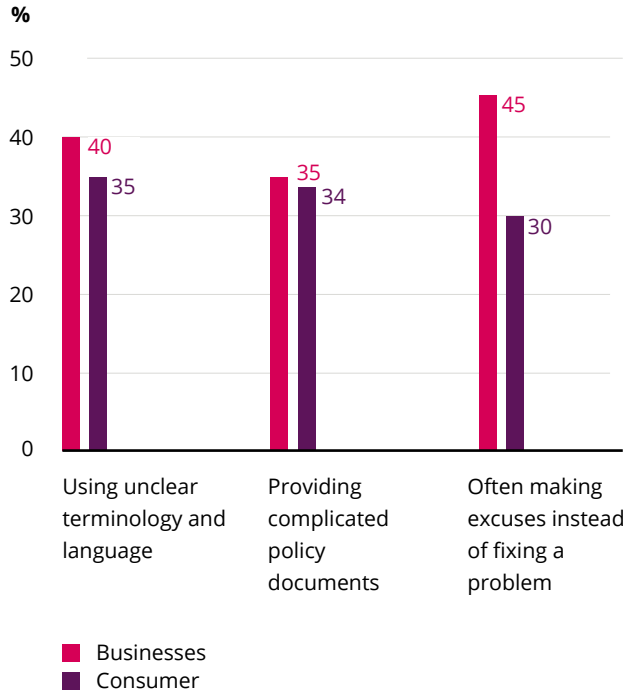
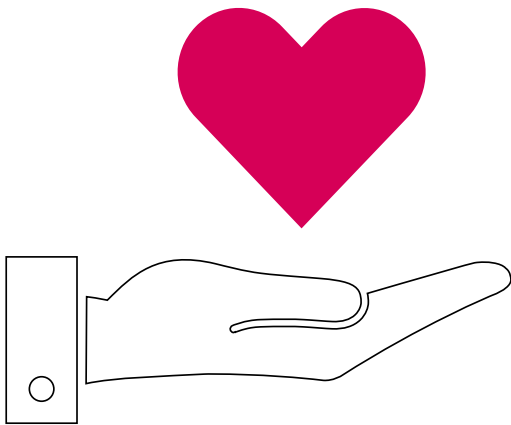
#### Consumer policies:



**A question of trust**

An overwhelming majority of both businesses and consumers trust their insurance providers.

So far as businesses are concerned, levels of trust vary depending on company size. There are higher levels of trust in big companies (90%) compared with smaller or micro enterprises (75%). Where there are lower levels of trust in insurance providers, businesses and consumers tend to agree on the key reasons:



Perhaps the most testing issue relates to attitudes toward insurance providers’ capture, storage and usage of their customers’ data. Mostly, buyers need reassurance from their insurance providers that they are acting responsibly and keeping their data safe.

An overwhelming proportion of businesses (75%) feel comfortable with insurers accessing or using their company data to inform their products. However, 52% also say insurers should be more

transparent around how they use this data, and 41% want insurers only to use their company data in very limited circumstances.

Consumers are more cautious. Nearly half feel uncomfortable about insurers accessing or using their personal data. Like businesses, 42% of them believe there should be greater transparency around how insurers use their data and 45% say it should only be used in very limited circumstances.



### More personalisation please

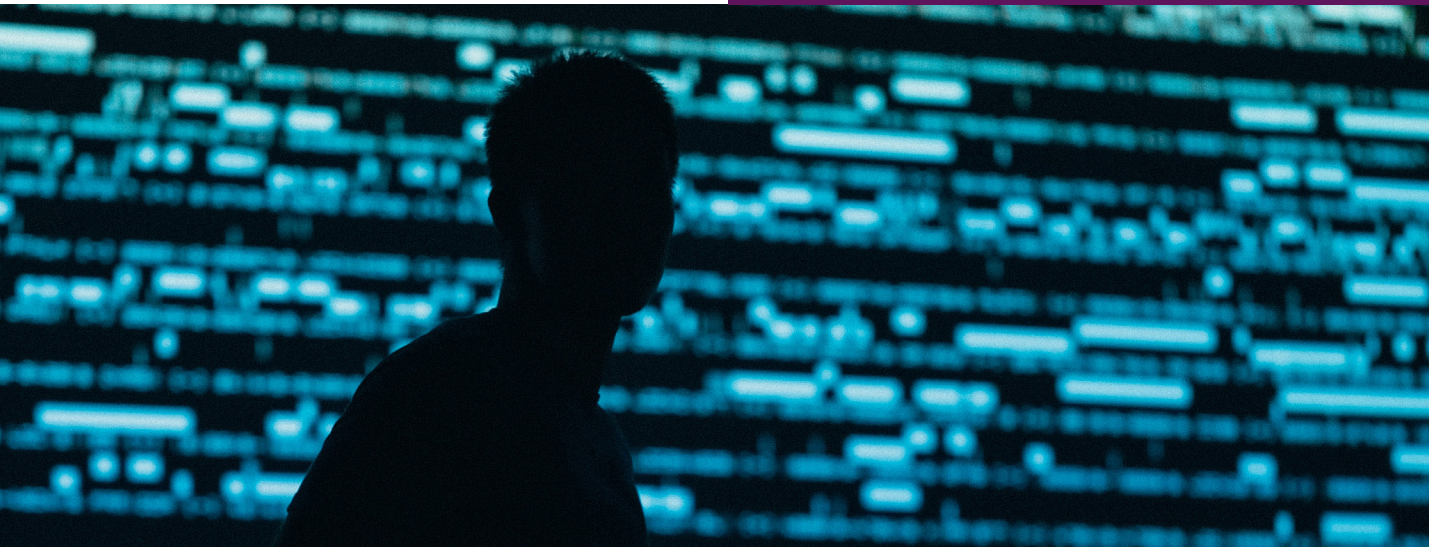
Despite the hesitation around data sharing, a high proportion of both businesses (78%) and consumers (61%) welcome greater personalisation and customisation of policies. Among business respondents, 87% of larger organisations also have a strong appetite for more personalisation and customisation, compared with 76% of medium-sized companies and 68% of small or micro enterprises.

However, it's clear that businesses and consumers lack knowledge of, and confidence in, these matters. More than 70% of both groups wish they knew more about the benefits of personalisation and customisation.

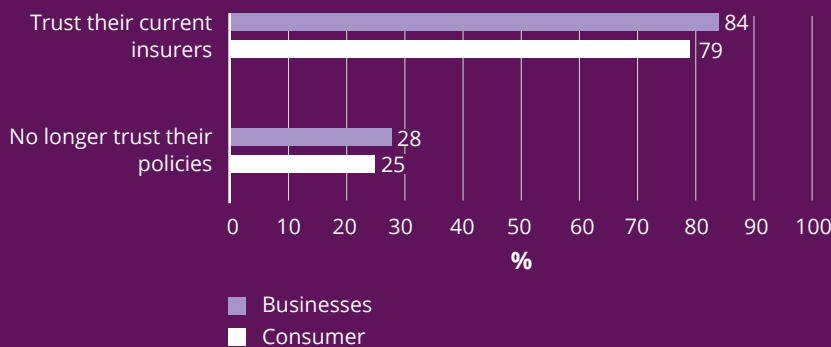
Jamie Taylor, DWF Data Protection and Cyber Security Senior Management Director, notes that the data points to a perceived trade-off between buyers' desire for a more bespoke, personalised approach and their concerns about the potential loss of control of their personal data. The two aren't mutually exclusive.

Indeed, they present a positive opportunity for insurers to simultaneously:

- highlight their commitment to transparency;
- build the benefits of data protection into product offerings; and
- anonymise data to extract greater value.



### Varied levels of trust



## 2. Cost and value

When it comes to the price of insurance policy premiums, it seems there is something of a two-tiered approach.

### More for more

Over a third (36%) of businesses would consider paying higher insurance premiums than originally planned, suggesting they are eager to have more coverage, with the remaining businesses wishing to either keep the same price (48%), pay lower premiums (15%) or drop the policy altogether (1%). Furthermore, businesses are prepared to pay substantially more in some cases. More than half (51%) would be willing to pay up to 10% more for better coverage and 41% would pay between 20% and 40% more. Businesses also tend to favour insurance policy coverage (63%) over insurance premium (38%), indicating they value the security of coverage over a one-off cost. At a product level, perhaps unsurprisingly cyber insurance looks to be a potential growth area with 50% of businesses willing to pay more for this product.

The challenge for insurers will be finding a way to write better cyber risk. Part of the solution might be in harnessing technology to conduct thorough background checks on potential new customers and their resilience.

### Less for less

On the consumer side, most respondents (63%) are happy to keep paying the same premiums. Seemingly, they are satisfied with their current insurance price to coverage ratio.

Only a small number of consumers (14%) said they would consider paying higher premiums overall for their insurance policies. Conversely, nearly half (49%) would be willing to pay up to 10% less for lower coverage and 39% would pay between 20-40% less.

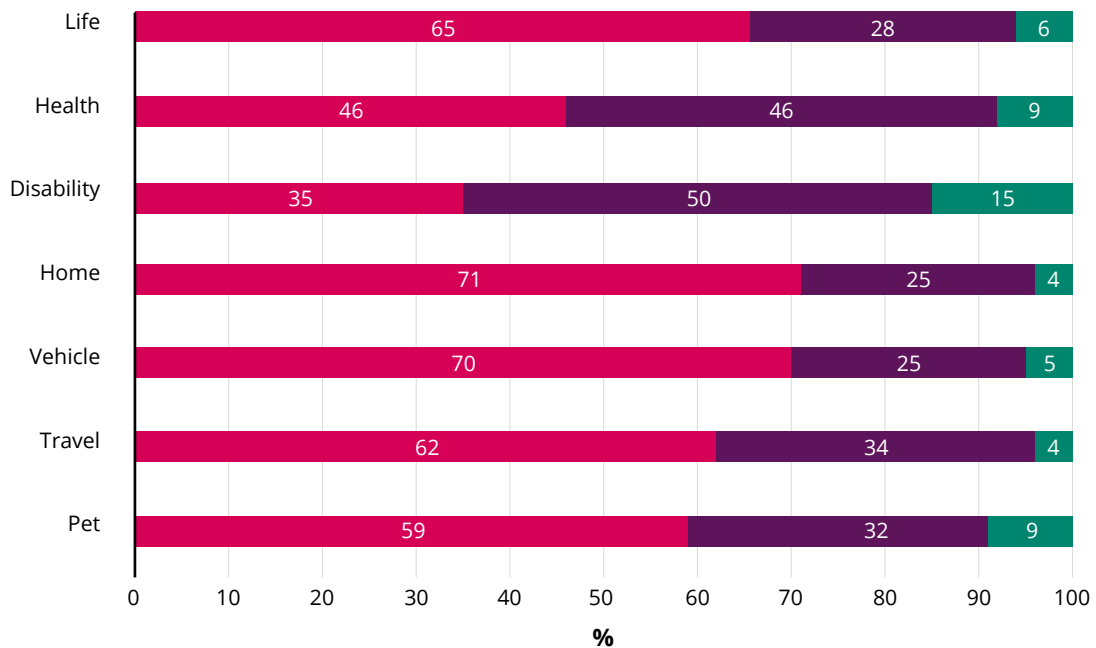


**Of those who are prepared to pay more**

**Business policies:**



**Consumer policies:**



■ Up to 10% more   ■ 20%-40% more   ■ Over 40% more



### 3. Insurance literacy

Businesses and consumers appear to understand their insurance policies well. In general, they pay close attention to the small print and know what they are buying. However, there remains an important role for professional advisers.

#### Buyer beware

Nearly all businesses (95%) and consumers (93%) claim to understand their insurance policy documents. On the surface, this suggests a high degree of insurance 'literacy' across the board, though a more detailed reading of the data reveals considerable differences between the two cohorts.

**Only 66% of consumers read their policy documents thoroughly, which perhaps belies their stated levels of understanding.**

This gap may be explained by a reluctance to seek professional advice, with nearly two-thirds of consumers (64%) not using an independent broker to help them understand what they are paying and what they are covered for.

The most commonly-bought policies are the best understood by consumers. However, the more specialist the policy (such as disability insurance), the more complicated the buying process and therefore the greater the need for expert advice from intermediaries. With policies such as these, the vast majority (73%) of respondents say they seek help from a broker.

A very significant majority (82%) of all businesses read all types of business insurance policy thoroughly. Given that more than half of them have a dedicated internal team to oversee their insurance policies, this figure might be expected to be higher.

However, as noted by Archana Makol, DWF Client Services Director, for many internal insurance leads, insurance is but one of the many responsibilities they must manage. It is therefore less surprising that 79% of businesses rely on brokers to help them understand their policies. Businesses tend to invest heavily in these services and expect a decent return on this investment.



### Challenging decisions

Choosing the right policy remains a challenge for everyone. For businesses, perhaps the complexity of the buying environment has been exacerbated by the effects of the hard market. The impact is most noticeable in relation to products, such as cyber insurance.

Around two thirds (66%) of consumers and seven in ten (70%) businesses think that choosing and buying insurance is always a difficult process. Perhaps surprisingly, almost half (49%) of businesses claim a lack of understanding when it comes to business insurance.

Businesses and consumers both agree that insurance providers should:

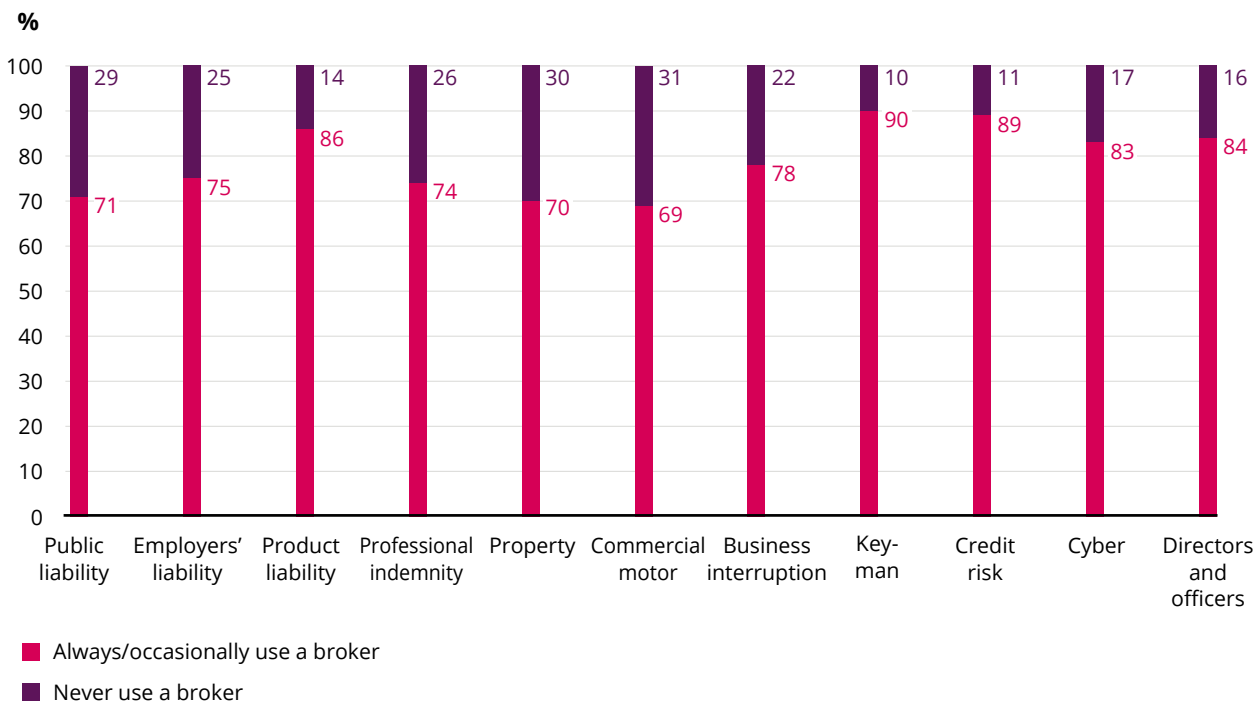
- write policies in everyday English and not in legal terms;
- highlight key pieces of information; and
- highlight any caveats, restrictions, or areas that are not covered.

There’s still some way to go for initiatives, such as the EU’s recent Insurance Distribution Directive and the FCA’s Treating Customers Fairly guidelines, to take effect. Most importantly, it seems, insurers still need to improve the clarity of their product information.

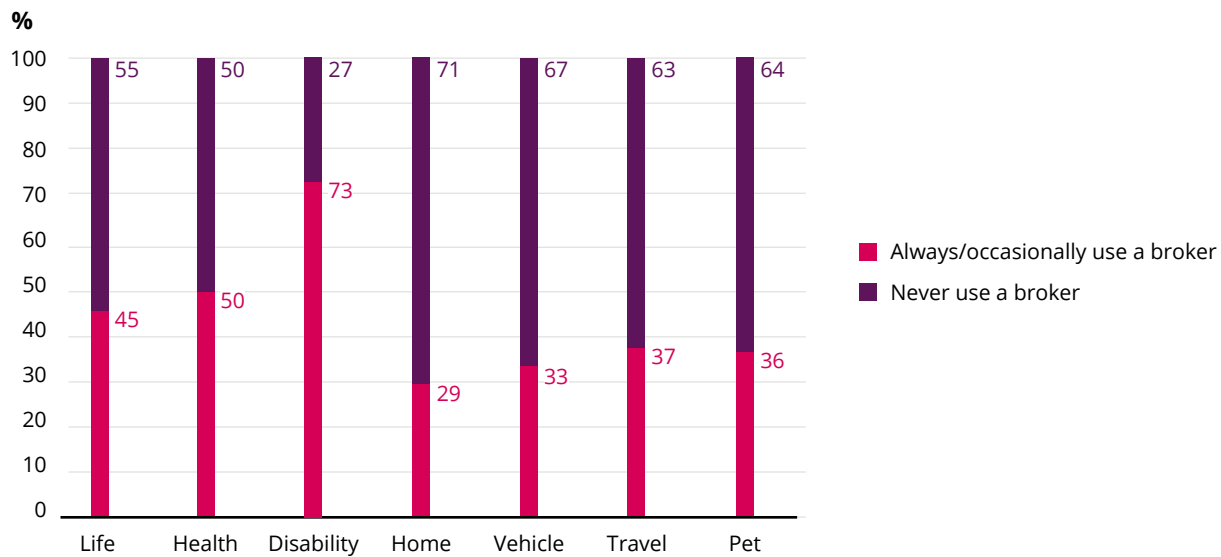
Jonathan Drake, DWF Insurance Regulatory Partner, notes that there’s still a critical role for brokers to play in providing advice to buyers that might alleviate some of the burden of the buying process. This would be of value particularly for businesses trying to navigate the challenges of the hard market – especially in relation to products such as cyber and business interruption insurance.

### Brokers are key to understanding

Business policies:



**Consumer policies:**



**Challenges of choosing a policy particularly acute for SMEs**



**Switching**

In general, nearly two thirds (64%) of both businesses and consumers switch or shop around for a new policy once every one to three years.

Consumers are more likely to switch their vehicle (82%) and home (73%) policies in this time frame. Conversely, 44% would never change their life policies and 30% would always stick with their existing health policies.

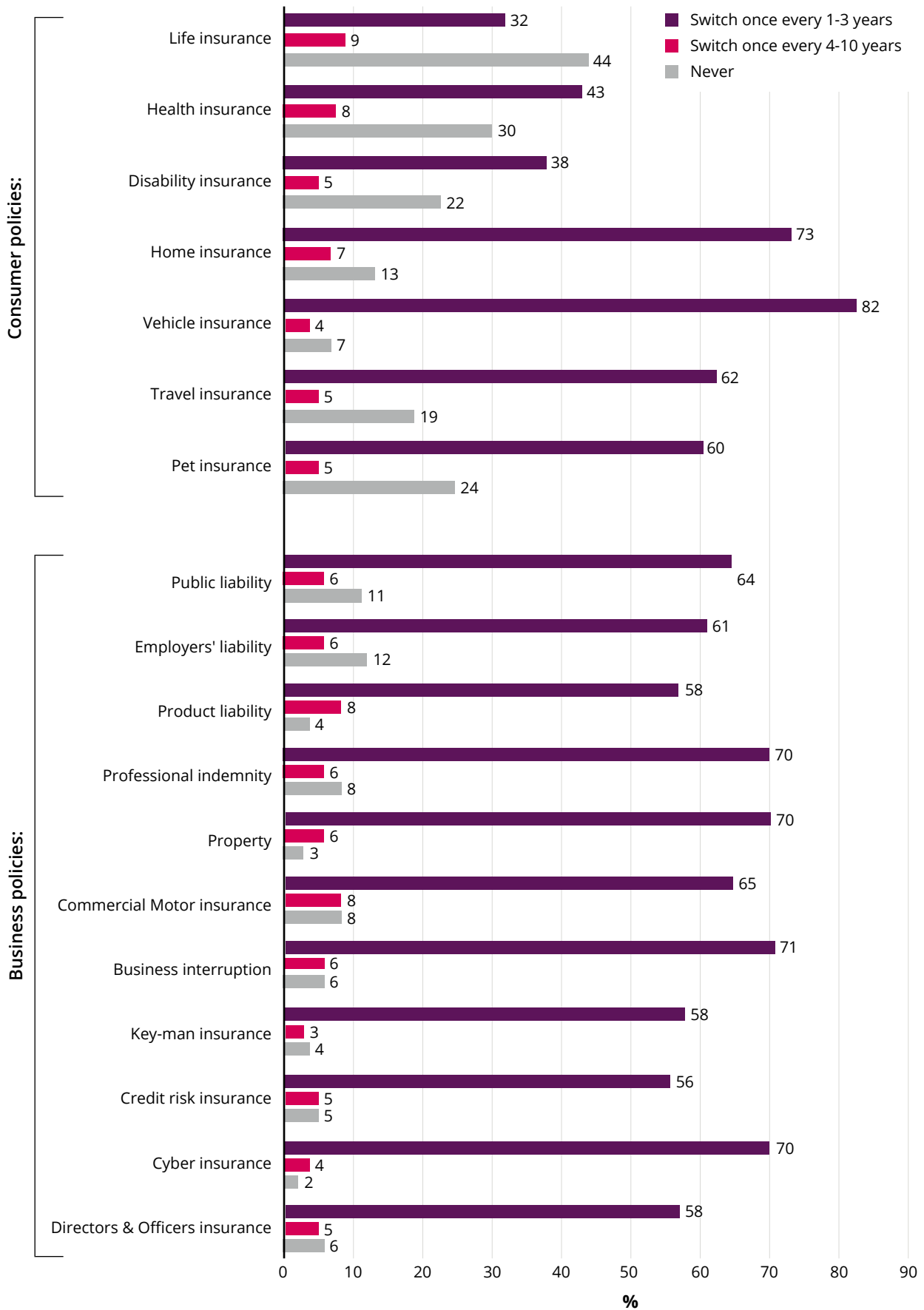
Businesses are likely to shop around for credit risk (23%), key man (20%) and product liability (17%) insurance policies every two to six months.

Much of the impetus for switching – especially among consumers – can likely be attributed to the prevalence of price comparison websites. However, both businesses and consumers cite a lack of time as the main reason for not switching insurance policies more regularly.

The time factor aside, insurers could do well to consider how they might smooth the volatility of regular switching. One of the tools at their disposal could be the FCA's new 'price walking' regulation, which insurers are assimilating.



**Policy switching is a relatively frequent occurrence**



## 4. Oversight and regulation

The insurance industry is inevitably and understandably highly regulated. However, there is a lack of consistency when it comes to general awareness of some of the more significant measures in place to help buyers of insurance products.

### FCA initiatives

The Financial Conduct Authority's (FCA) value data measures and its rules to prevent insurers charging existing customers more have been well publicised. Similarly, the Financial Ombudsman Service is referenced in virtually every policy document, with insurers and brokers required to inform customers of the service as a matter of course. It might therefore be fair to assume that, in general, buyers of insurance are familiar with such initiatives and the benefits they deliver.

In part, this is indeed the case. More than half of businesses (55%) confirmed that they knew of the FCA's value data measures, and a significant majority of those that knew (69%) have also used these measures to help them select the best insurance products for their needs.

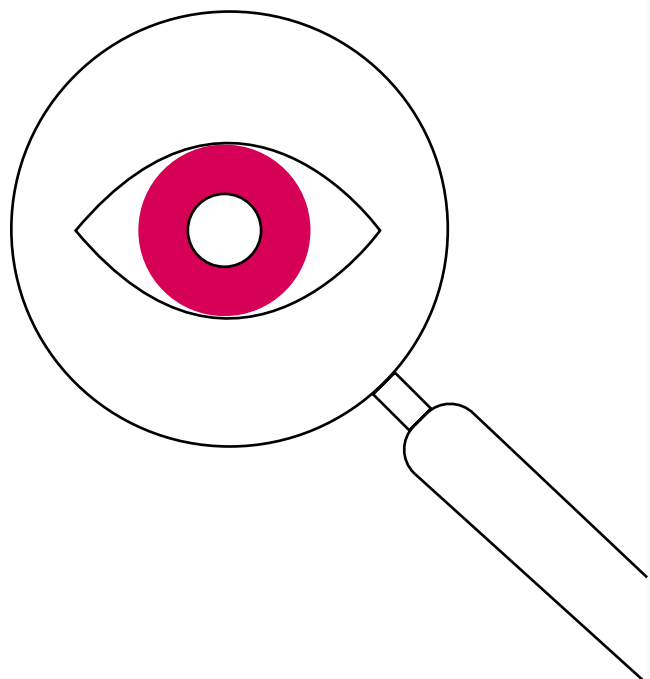
For consumers, however, less than a quarter (24%) have heard of the value data measures, and over half (56%) have never used them when buying a policy.

**There is clearly room for the FCA to raise the profile of these measures more vigorously among consumer audiences.**

The picture changes again in respect of the FCA's rules to prevent insurers charging new customers less than existing customers.

It appears that these rules resonate across the board with high levels of awareness among all survey respondents (55% of businesses and 44% of consumers). More encouraging still for the regulator, is the fact that there is broad-based support for the rules, with 90% of consumers and 86% of businesses saying they think they're worthwhile.

Importantly, from a consumer perspective, support for these rules is built on the belief that they make life fairer for existing customers and that they're likely to encourage customer loyalty. However, if there's a sting in the tale, it might be that the 10% of consumers who disapprove of these rules do so because they believe they reduce competition and make it harder to shop around for better premiums.



### Financial Ombudsman Service


Whilst there is a high degree of awareness of the Financial Ombudsman Service (79% among businesses and 67% among consumers), the service receives comparatively little traction. One would assume that's a reflection of the level of service generally being of a standard that recourse to the ombudsman is not required.

Only 9% of consumers and 26% of businesses state that they have ever used it to resolve insurance-related disputes. For those businesses that do access the service, size is an important factor with usage coming mostly from medium-sized companies (28%) and large organisations (38%).

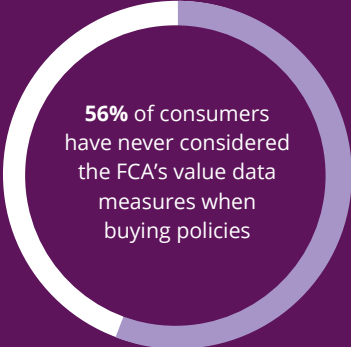
However, though usage of the Financial Ombudsman Service is restricted to a relatively small number of businesses and consumers, those who do call upon it are resolutely satisfied with the service they receive.

Overall, this data paints a picture of a regulatory environment that, while fit-for-purpose, still needs to address an information and relevancy gap. There seems to be an opportunity for the insurance industry as a whole to collaborate on broadening the dialogue with buyers of both business and consumer policies. It will be interesting to see what effect the new Consumer Duty rules will have, and whether buyers will be aware of the changes.


### Patchy knowledge of insurance regulation



45% of businesses don't know about the FCA's rules to prevent insurers charging new customers less than existing customers



56% of consumers have never considered the FCA's value data measures when buying policies



Over 90% of businesses and consumers are satisfied with the Financial Ombudsman Service



## 5. Looking ahead, perspectives from younger consumers

The future of insurance might well be shaped by the insights and views of younger consumers. For many of this cohort, insurance is an important issue about which they are well informed. However, this generation has high expectations of their insurance providers and the policies they provide.

### Insurance is more important since the pandemic

Over half of 18 to 24-year-olds think differently about insurance because of the COVID-19 pandemic, compared to a significant 89% of over 55s who haven't changed their views.

Of those who said it had changed how they think about insurance, one-third (34%) said it made them appreciate the importance of insurance policies much more. A further 42% reported that it made them realise they needed more coverage.

### Less experience equals more attention to detail

Almost three-quarters (73%) of 18 to 24 and 25 to 34-year-olds are likely to read their insurance policy documents closely compared to older consumers. Far from the broad assumptions of young people being more reckless, it seems that many younger people are happy to confront their lack of familiarity with, and understanding of, insurance.

They cite the top reasons for taking a close look at the small print as:

- Wanting to make sure they understand what they are covered for and what is excluded – 50%
- Not wanting to miss important details – 40%
- Educating themselves on their insurance policy – 34%

Three quarters (76%) of 18 to 34-year-olds agree that choosing an insurance policy is always a difficult process. This perhaps explains the popularity of brokers with younger people – with a significant 59% of 18 to 24-year-olds relying on brokers to help them understand their insurance policies and what they're paying for.

### High expectations

Younger consumers have high expectations of insurers and are more likely to be critical of their experiences compared to other age groups. Of those in the 18 to 24-year-old category, nearly a third (32%) are more likely to have felt let down by their insurer – double the average of other age groups (16%).

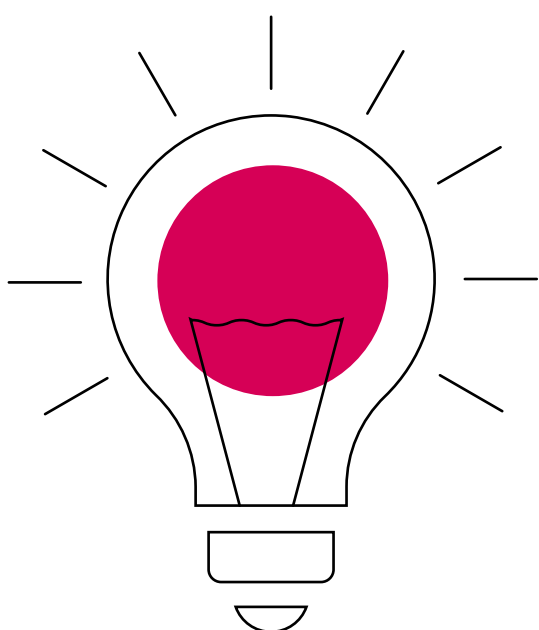
Additionally, 31% say their insurer lacks empathy and 28% believe insurers don't provide them with the right support. These findings suggest that insurers have work to do to ensure they meet the expectations of the customers who might stay with them the longest.





### Eager for innovation

Younger consumers are also open to new approaches from insurers. More than seven in ten (71%) of 18 to 24-year-olds are interested in personalisation and customisation in their insurance policies, whereas 43% of over 65s are not. Seemingly there's an opportunity for insurers to use innovation to engage with existing customers and attract new ones.



### Willing to pay, but looking for a good deal

In what will be music to many insurers' ears, younger people seem to be willing to consider paying higher premiums for all insurance types – with a quarter stating this to be the case. Additionally, 42% of 18-24 year olds would be willing to pay between 20-40% more for better coverage, offering insurers the opportunity to differentiate themselves with more comprehensive policies at a higher premium.

However, while they might be willing to spend for the right policy, 18 to 24-year-olds have a stronger appetite and willingness to switch and look around for the right policy. More than one in five (21%) shop around every two to six months. Notably, just 2% of over 55s do so with the same frequency. This might be attributable to the fact that younger people are more digitally native and comfortable using price comparison tools and apps – including those that automatically switch accounts to a cheaper deal.

### Augmented premiums

25% of young consumers would pay more for their insurance premiums

42% of those willing to pay more would pay 20%-40% more for better coverage



# Conclusion

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Headlines about the insurance industry are sometimes less than positive. What this research reveals, however, is that there is a more rounded, and arguably more optimistic narrative.

The past two years have had some negative press for parts of the insurance industry, for allegedly falling short of customers' expectations. Despite the significant challenges presented to the industry by the pandemic, by and large businesses and consumers seem to share a depth of knowledge, understanding and appreciation for their insurance providers and the products they buy.

This snapshot of opinion will no doubt be welcome news for the industry, but buyers are also discerning and have high expectations.

In the main, what the research identifies is a moment of opportunity for the insurance industry to build on already solid foundations and forge an enhanced relationship with a largely engaged and satisfied customer base.





# Methodology

An online survey was conducted among two core groups of respondents at the end of 2021.

## Business

The business cohort was made up of 403 directors each responsible for their respective organisations' insurance policy purchases.

### Participating businesses were made of:

- Micro/small: 30%
- Medium: 32%
- Large: 38%

### Breakdown of annual turnover of participants was:

- Less than £9.99 million: 41%
- £10 million to £99.9 million: 24%
- £100 million to £499.99 million: 15%
- £500 million+: 18%

### Research focused on the following types of business insurance policy:

- Employers' liability
- Public liability
- Property
- Professional indemnity
- Product liability
- Business interruption
- Cyber
- Commercial motor
- Directors and officers
- Credit risk
- Key-man

## Consumer

The consumer cohort was made up of 2,000 individuals who are insurance purchase decision makers within their respective households.

### Gender balance:

- Women: 50%
- Men: 49%
- Non-Binary: <1%
- Prefer not to say: <1%

### Age:

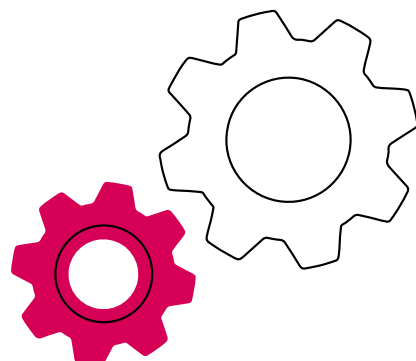
- 18-24: 6%
- 25-34: 15%
- 35-44: 18%
- 45-54: 16%
- 55-64: 22%
- 65+: 24%

### Socio-economic groupings:

- ABC1: 54%
- C2DE: 46%

### Research focused on the following types of consumer insurance:

- Life
- Health
- Disability
- Home
- Vehicle
- Travel
- Pet



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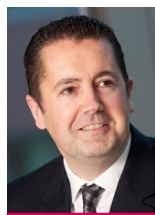


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