

INSURANCE BEHAVIOUR OF GENERATION Y IN POLAND AND IN GERMANY

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Abstract: For a long time insurers have been looking for an answer to the question: how to attract young people with life insurance and motivate them to make a decision and buy the policy? It is not an easy task, particularly, because at a young age people do not think about the old age yet, convinced that it is remote time for them. The aim of the article is to present specific features of Generation Y, their needs and expectations and ways of taking decisions about retirement security. Such knowledge will allow the insurance business to better adjust to the needs of this customer segment which they would really like to attract. The article uses data from, among others from *World Insurance Report* (2015), *Social Diagnosis* (2014 and 2015), *Deutschland in Zahlen* (2015) and the results of selected research carried out in Poland and Germany in the period from 2011-2015. A method of description, deduction and synthesis was also used.

Keywords: Generation Y, new technologies, mobile devices, life insurance, retirement security.

1. Introduction

The problems of *Insurance in the Web* have been widely discussed recently as the decision behaviour of consumers have moved into the virtual world. This is where social relations are formed using the possibilities of *Web 2.0*. In the Net the user creates, exchanges and shares various contents and knowledge. The existing consumer becomes an active information producer, changing into the so called *prosumer* (Völler, 2012, p. 4). Online interactions take place between users and commercial tenderers, while insurers and their representatives must be cautious as published information is followed suit by assessment, recommendations and personal experience of Internet users and may strengthen or weaken the company credibility.

The aim of the article is to present some characteristics of Generation Y and its behaviours in the life insurance market, which can assist the insurers in taking new steps to reinforce the relations with customers in providing services via digital channels.

2. Characteristics of Generation Y

Generation Y is today a key target group of many brands. It accounts for 1/4 to 1/3 of the population present in various markets. This segment is also of great importance for insurance companies which value its great potential connected with the value of age and lifetime against the calculated risk (Capgemini, 2015, p. 19; Przyłuska, 2013, p. 15-16).

Generation Y is a segment of consumers aged from 18 to 34, which is said to consist of people who are confident, ambitious and, which is the most important, in possession of technical knowledge. The use of Internet technologies and mobile devices does not pose any problems for them and accompanies their everyday activities. The digital technology they grew up with, determines their present lifestyle (Capgemini, 2015, p. 19). Statistics indicate that (according to the number of contracts executed) in Germany there are 119 mobile phones per 100 inhabitants, while in Poland as many as 150 per 100 inhabitants, and in Germany there are 84% of Internet users while in Poland only 62.8% (Institut der deutschen Wirtschaft, 2015, p. 154).

For the Digital Generation the Net is, first of all, a community, which they treat as a source of bonds, entertainment, relaxation, advice and inspiration. Generation Y represents an enormous social and economic potential which is now partly being pursued. And although the time when this generation will shape the mass market, has not come yet, it is necessary to get prepared by searching for answers to the questions:

- What is Generation Y like?
- How to talk to them?
- What are their needs and expectations?

Generation Y has to be seen as a diverse group which can be divided into two sub-groups: the younger, born in 1990-2000, and the older, born between 1980 and 1989. The world of 25-year-olds is different from the one of 35-year-olds, for the reason of their daily routine alone. The younger are still learning or taking up their first job while the older are already working and starting their families. It causes that from the business point of view they should be treated as two separate sub-groups. In order to enter into dialogue with them, there should be such contents and communication tools selected which will make the recipients listen to, understand and accept them.

In many aspects, the older group of Generation Y took over the characteristic features of the preceding Generation X (Signium, 2013, p. 14). The older Ys were brought up “offline”, and the development of technologies forced them to quickly adapt to new Net conditions. This adjustment still continues with further development of information technologies which change the way they communicate with others, the way they work, spend their free time and shop.

The younger Ys are partly like Generation Z. They use smartphones, thanks to which they can be online anytime, communicating with friends, listening to music and using the applications providing entertainment or making their lives easier.

The younger Y are brave, proud, caring a lot about their image, which they create, particularly, by means of social media.

Thanks to this generation, mobile devices have become highly-functional information, transactional and service (post-sales) medium. Only in 2014 in Germany there was nearly 30% of web traffic mainly via smartphones. The Share of German online sales was already 14% while mobile commerce (m-commerce) recorded the turnover of 5.1 billion euro, which is a much higher result than the former experts' estimations indicated (Rudolf, 2015, p. 28-29). In Poland mobile web traffic amounted only to 8.3%, but 72% of it via smartphones (www.twenga-solution.com).

Generation Y is the most influential and the most demanding consumer group the market currently deals with. These people pose a challenge for public relations specialists, the so called PR men¹, whose classical tools and often schematic approach to this group are becoming ineffective. Therefore, thinking about communication with Generation Y, it must change to include its specificity: the language they use, their behaviour and preferences. Communication with Generation Y must be conducted in four areas:

- mobile friendly,
- social,
- visual,
- (time live), i.e. in real time (Wrotniak-Chałada, 2015).

Including these components into dedicated and effective dialogue may bring a desirable effect, the key to which is utility and functionality. Also, the more and more important role is played by the context in which they are used and the way the needs of a young person are met. The Generation Y user requires prompt service “here and now”, while all that is too difficult and complicated for him is instantly rejected. Optimisation of the content passed in the net, mobile finance and mobile payments are becoming more and more important.

3. Ways of making insurance decisions

Considering future retirement benefits coming from public insurance systems, it is reasonable to answer the following questions:

- Do young people think about private pension plans?
- Are there any milestones in their decision making process, which give an impulse to buying a policy or is a barrier to it?
- How do young people perceive insurers and their offer in the Net?
- Where do they usually get informed before buying insurance?

¹ Public relations (PR)– managing relations of subjects operating in public with its environment. The aim of public relations is to care about good image, acceptance and kindness towards the operations of an individual or a company. https://pl.wikipedia.org/wiki/Public_relations (retrieved: 16.12.2015)

In the area of finance and, especially, insurance, there are several barriers which a young person encounters before selecting and buying a policy. Complicated financial matter and the abundance of insurance products causes that a young person must take a giant step to successfully get through the process of understanding a pension plan and, next, to create in himself the insurance need which will lead him to find the right product in the market and finalise the transaction (Przyłuska-Schmitt, 2015, p. 318-324).

First, **the awareness of the existence of a concrete problem and its consequences** must be triggered in a young person. Then, he must understand that the problem of retirement benefits from state social insurance is not only a theoretical one, but that in practice it means insufficient income at the old age. Thanks to understanding the importance of individual consequences of the decision taken, there is a chance that a young person will recognise **the need for prompt action**.

At a later stage, he should be roughly aware that there are various ways leading to the goal. Therefore, he must ask himself the question which form of pension is appropriate for him and whether it is achievable.

However, here appears another barrier. From among **countless offers** a young person must identify a product “appropriate” for him and an “appropriate” supplier-tenderer of an insurance service. The excess of various solutions may effectively discourage him from making a choice and taking a decision. While consulting an insurance broker, a young person may clarify some details and assess the seller-tenderer in terms of credibility. He may not take an insurance decision at once, but he may do it later, by **seeking extra advice** in his private environment or on the Internet forum where he will find proper recommendations. Internet users give their “credit” rating to insurance service providers, which may but does not have to be an obstacle to entering into a contract. However, it is an indicator of a positive image of an insurance company, therefore it must not be underestimated by insurers.

Studies indicate that insurance products (of concrete insurers) are very little known in private households (Statista, 2014-2017). Experts are surprised by it but this situation offers them some opportunities. Insurance industry may try to highlight the positive aspects of insurance security such as retaining the standard or the quality of living in the future. What is becoming equally important is the live communication with the customer, attractive marketing and making young people acquainted with transparently presented insurance products (Lier, 2015, p. 19). The fewer people know the insurance offer the greater the public indifference towards the additional retirement security and the higher the expectations towards public institutions.

There is no doubt that the Internet has changed customer buying habits and expectations as to some processes and services. Many studies confirm that there are insurance customers who want to buy products online at any time and expect audio-visual communication. There are also others who prefer individual contact with a broker or a combination of online purchase and direct advice from an agent, which presents entirely new challenges for insurers and agents.

The studies coming from the report of the European insurance market (2015) show that many customer groups are open to new distribution channels. Distributors and insurance companies must thoroughly analyse which customer segment to deal with and what the segment expectations are, as those who offer the right approach will gain competitive advantage (Lier, 2015, p. 18).

Today's customer-Internet user manages the insurance market dynamics. Between the pool of Internet customers and those preferring traditional insurance agents, there are more and more hybrid customers who will dominate the market in the future. Such customers, will show various insurance behaviours depending on the situation, occasion and product type. At their disposal there must be agent channels, as well as insurers present in the Net, in social media, in search engines and in comparative sites. Agents must be open to such changes and adjust to them. According to the studies by SMP AG strategy consulting company (SMP-Versicherungsstudie, 2014), already 61% of customers get detailed information in the Net to prepare for the consultation while 84% expect from an agent-broker high professional qualifications as regards detailed questions. For 70% of respondents, it is important that the agent should not treat the customer in a standard way but should take into account his individual needs (Rudolf, 2015, p. 29).

Then, what actions do insurers and agents take in the Web to attract young people with insurance and help them to create the need for action? Is the information presented in the Net by insurers helpful?

A recent survey conducted by the Institute of Insurance Studies of the Cologne University of Applied Sciences (IVW) shows that 98% of young people seek product information in the Net. It means that a considerable part of Generation Y surfs in the Internet before buying insurance, although in this area there are still no properly developed information websites such as the Amazon for electronics or HolidayCheck or TripAdvisor for tourism (Völler, 2015, p. 20).

A young person usually starts looking for insurance information in the Google search engine which is the first place, most frequently used source of information search. The second is a direct website of the service provider which is entered by more than 57% of young responders (60% in 2013) to learn something about insurance and products offered. The insurer's website and the information published there about insurance products are considered to be important and are clearly more highly valued than e.g., consumer goods (Völler, 2013, p. 43). The website is followed by opinions in popular press and advisors from the private environment, such as family, relatives or friends.

For 66% of respondents, social networking sites like Facebook do not play a major role in looking for information before entering into insurance contract. It may be explained by a specific character of Facebook, which is a "place" of social meetings and which does not include a useful search function.

But threats to insurers are coming from another side, i.e., comparative and utility websites, which in 2014 were used by 46% of young people. They will play a growing role in looking

for the cheapest offer and impeccable opinions about the insurer. It is not necessarily a determinant of the final decision but a guide for further penetration. It also appears from recent studies that buying decisions in the area of insurance taken by the young generation do not have to include only online sources. In reality, beside the review of neutral press which, for 87% of the respondents, is important or very important, Generation Y's insurance decisions are formed by their closest circle. Young people take into consideration the advice of family members (90%), other competent people from their personal environment (89%) and friends (82%), as well as their personal advisor, an agent or a broker (74%) (Völler, 2014, p. 20-21).

Polish respondents admitted that the Internet is the most helpful source while taking an insurance decision (46% of women and 41% of men) and, then, the other media such as press, radio or television (over 39% of men and over 31% of women). In case of women the third was an insurance expert (28%) and in case of men (nearly 38%) family and friends (Przyłuska, 2013, p. 121).

These results show how diversified are the information resources used by young people while making important long-term decisions. Opinions, recommendations and advice of personal circles, beside other neutral reports, serve to grant credibility and quality to a service provider and are later passed on via digital channels and social networking sites.

4. The condition of the Polish life insurance market

In Poland the situation of online pension schemes looks slightly different. This market is not as well developed as the German market and there are no proper reports related to detailed analyses of insurance of Sector I. Only general trends are outlined. However, it is possible and even necessary to study the level of interest of young people in additional insurance, forms of saving their surplus cash and aims it is allocated to. In Poland the trust in financial institutions is still inadequate, although, as studies show, until 2007 their reliability was growing (which is shown in the results of consecutive *Social Diagnoses* studying, among others, the trust of Poles to banks, insurance institutions, investment funds, the stock exchange, Open Pension Funds and the Social Insurance Institution). From the report of the *Social Diagnosis of 2015* we can learn:

- if and how much Poles invest in insurance policies,
- whether they trust financial institutions, including life insurance companies.

It appears that even in 2013 the rate of positive replies confirming the trust of respondents to financial institutions in Poland stood at 31%, while the rate of negative ones stood at 34%. The remaining 35% of respondents could not express their opinion on this matter (Szumlicz, 2013, p. 310-316). Life insurance institutions, despite the clear depreciation in their trust at 49% in 2007, still maintain their relatively high level of trust among 25-34-year old people

with higher education, the highest income and employed in the private sector. Whereas the prevalence of distrust over trust refers to the majority of groups of respondents by age, sex, education, material status, as well as by social and professional status (Szumlicz, 2014, p. 104). In 2015 the situation changed slightly in favour of insurers. The percentage of positive replies to the question, *Do you trust life insurance institutions?*, grew in 2015 and stood at over 35% in comparison with 34% in 2013, while 33% of respondents could not express their opinion on the matter. Considering those who have their opinion, the degree of trust to life insurance institutions amounted to 53%, i.e. by 4% more than in 2013 (then, it amounted to about 48%) (Czapiński, Panek, 2015, p. 83). The lack of trust to financial institutions is a serious social problem since the belief that trust is the most important factor of social life, both from theoretical and practical point of view, seems to be obvious. However, distrust to financial institutions can be explained in various ways. On the one hand, distrust is said to result from the lack of experience in using the services of a financial institution (although over 25 years has passed since the beginning of the transformation). On the other hand, what is noted is the greed of financial institutions seeking “decent” profit on their activity (Szumlicz, 2014, p.345). This trust is confirmed by the structure of savings and aims (Table 1 and 2).

Table 1.

Savings structure by the form of saving (2013 and 2015)

Form of saving	Estimated percentage of savings in a given form	
	in 2013	in 2015
1. Deposits in banks in PLN	43.2	32.4
2. Deposits in banks in foreign currencies	6.0	4.2
3. Bonds	3.9	1.4
4. Investment funds	11.4	4.9
5. Individual pension account/retirement security	2.1	2.2
6. Employee Pension Plan	-	1.1
7. Quoted securities	2.3	2.4
8. Shares and stocks in unquoted equities	1.3	1.2
9. Investment in real estate	5.2	6.9
10. Investment in tangible assets other than real estate	2.4	0.6
11. Cash	13.5	12.9
12. Insurance policy	3.7	4.7
13. Long-term systematic saving plans	2.7	1.3
14. Savings account	-	9.6
15. Personal account (checking and savings account)	-	13.4
16. Other	2.1	0.6

Source: based on Social Diagnosis, 2013, p. 91 and Social Diagnosis, 2015, p. 7.

Social Diagnosis 2015 shows that Poles allocate 4.7% of their financial resources to the purchase of insurance policies, which is a 1% increase on the year 2013.

The largest part of savings of Polish households (32.4%) is accumulated in the form of deposits in PLN, although here there is a significant fall by over 10% on the year 2013 (43%) in favour of other forms of savings. It probably results from low-interest bank offers, owing to which this form of saving is becoming unattractive.

Second, Poles keep their money (13.4%) on checking and savings accounts, and third, despite its archaic form usually expressing the lack of trust in financial institutions, Poles keep 12.9% of their resources in cash. It is worth paying attention to a significant decrease in the interest in investment funds. Poles saved in this way only 4.9% of their resources, while it was 11.4% in 2013 (Czapiński, Panek, 2014, p. 91; Czapiński, Panek, 2015, p. 83).

The analysis of the savings structure by the aim of their accumulation shows that households respond positively to the signs of the need for building their own financial security for the old age (Table 2).

Table 2.

Savings structure by the aim of accumulating resources (2015)

Aim of accumulating resources	Estimated percentage of savings accumulate for a given aim	
	in 2013	in 2015
1. Reserve for current consumption expenditure (e.g., food, clothing)	5.0	3.9
2. Standing charges (e.g., accommodation)	2.1	2.1
3. Purchase of durable goods	4.7	5.4
4. Purchase of a flat, payment to a housing cooperative	10.3	7.1
5. Modernisation of a house or flat	5.8	4.4
6. Medical treatment	4.5	4.5
7. Rehabilitation	2.3	2.3
8. Recreation/holidays	6.6	7.6
9. Reserve for unexpected events	18.0	18.4
10. Children's future	9.0	7.9
11. Old age security	18.9	22.2
12. Development of own business activity	2.8	2.8
13. Other aims	5.8	4.4
14. Without any special purpose	4.1	6.9

Source: based on Social Diagnosis, 2013, p. 91; Social Diagnosis, 2015, p. 73.

Thus, in terms of the aim, the largest part of savings accumulated by Polish households is intended for old age, and this trend is growing (22.2% in 2015 compared to 18.9% in 2013). An equally important aim is to save money in the event of unpredictable and unexpected events (18.4%), and, next, safeguarding children's future, followed by recreation (7.6%).

Hence, the general conviction that Poles insufficiently care about their and their dearests' future is contradicted by the facts indicated in the above data. They show that Polish people think about living decently in the old age, only the recourses with this aim in mind are deposited in a slightly different way.

5. Proposals for insurers

Generation Y does not address retirement as an area of their interest and an urgent need for action resulting from it. One could say that they are reinforced in this conviction by the construction of insurers' websites. Although online websites are most often used and perceived by the digital generation as an important source of information, they provide no

arguments that taking care of the future at a young age is a necessity and needs prompt action. Therefore, there is a necessity to take appropriate steps in insurance industry to reconstruct Internet websites and actively use proper social media networks and communicators instead of typical *call-centres*. Insurers must more clearly explain to young users the complex matter of pensions and raise their awareness of the consequences of the lack of retirement benefits.

Educating young people should start from clear explaining how systems of public insurance function. Understanding this may make young generation interested in additional voluntary insurance early enough. With this aim in mind the Social Insurance Institution (ZUS), in cooperation with the Ministry of Labour and Social Policy, has already prepared a project “Lessons with ZUS” for schools and teachers (www.zus.pl). This project aims at explaining the operating principles of social insurance systems, which is unclear for many young people. The points discussed are to explain where pensions come from, why we must save for the old age and what solidarity between generations means. Such projects contribute to building public awareness of young Poles and showing them how to navigate in the social insurance system and why they should become interested in additional life insurance.

6. Conclusion

At the times of Web 2.0 young people handle insurance matters only to the extent that it is necessary. Focusing their attention on these problems is slight, the demand for quick understanding and usefulness is high and the topic – complex. Growing popularity of mobile devices forces insurers to remove the text overload from their websites, which seems to be a threat at first sight. Yet it may appear to be a lucky coincidence. Decreasing the content to the minimum necessary, replacing the text with visualisations and video clips, engaging in active dialogue could contribute to better understanding of the problem and introduce a breath of fresh air into the interest in the issue of insurance. Consistent implementation of new ideas, however, is no mean challenge for the insurance industry. Carefully drawn-up strategies, thanks to which insurers will attract and retain this customer segment, will bring tangible benefits of scale. Simultaneously, one must reckon with the problem of meeting high expectations of generation Y, which means that every failure to meet the expectations of digital natives will result in negative experience for insurers.

The short-, medium- and long-term implication of the changing environment for insurers require firms to assess the future along three levels; current capabilities, readiness for change and future positioning (World Insurance Report, 2016, p. 30).

The firms should ask key questions related to each stage and be prepared to take an action as necessary. It is as important first step in devising an effective strategy to meet coming challenges.

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