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Family Financial Security

Frame Changin':
How Presence of a Child Impacts Provider Selection and Satisfaction in The Insurance Industry

by
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Abstract

Social scientists have long demonstrated that our perceptions of the world are shaped by schemas, a set of beliefs about people, events or situations that we use as guides in our interactions (i.e., Cohen, 1981; Tversky & Kahneman, 1974). Schemas allow us to process information quickly in order to decide whether to accept information and integrate it into our cognitive framework or to reject the information. This process ultimately affect the choices and evaluations people make (Tversky & Kahnehman, 1981; Misra & Beatty, 1990; Schmidt and Hitchon, 1999). As people move through various life stages, key events can modify the lens we use to judge relationships and create new schemas that we use to process incoming information. The following paper will examine a specific subgroup within insurance: people who have children. The majority of this group consists of couples with kids, a segment comprising over 40% of US households (US Census, 2007). Using primary research data we will show how the transition from having no children to having children constitutes a potential shift in how this group reacts to and interprets insurance information. Understanding this new frame will ultimately have strong implications for how and what to market to this potentially lucrative insurance group.

INTRODUCTION

Attitude is "a psychological tendency that is expressed by evaluating a particular entity with some degree of favor or disfavor" (Eagly & Chaiken, 1993). Measuring consumers' attitude towards marketing messages and programs is prevalent in today's world. Marketing and advertising research has favorably used attitudes because of their capability to predict future behaviors (Ajzen, 1991). However, attitudes and the resulting behaviors are often shaped by a consumers' existing belief structures which help determine how the incoming information is processed. These existing belief structures are called "schemas".

Schemas are knowledge structures that guide the processing of information and enable people to link facts with concepts, principles, examples, strategies and protocols (Mislevy, 1993). They help us understand how we use existing knowledge and beliefs to react to and make sense of the world around us. Past research in this area has explored how viewers generate attitudinal and behavioral responses to advertising and message stimuli (e.g., Dess, et al 2007; McDaniel, 1999; McDaniel & Heald, 2000). When consumers see advertisements, their schemas often dictate their response.

The level of advertising and consumer promotions by insurance companies has increased dramatically over the past several years. Hundreds of millions of dollars are poured into mass media outlets annually as insurance companies struggle to get their messages noticed and to capture consumers' attention. Currently, air waves and print materials are flooded with messages focused on price savings (e.g., "15 minutes could save you 15% or less", "Take advantage of our new lower rate", "Save 20% on auto insurance"). Given today's economic conditions, plus the fact that consumers are saturated with these messages, it is easy to understand why price is a commonly cited reason for both selecting and leaving an insurance provider.

What remains to be explored is how a person's existing schema filters and receives these messages, as well as how differing life factors can alter the importance of price when it comes to insurance selection. Past work in the field of self schemas has found that a perception of the self impacts perceptions of the world. There is little existing research, however, that explores how key life events (e.g., marriage, presence of a child) alter and impact these self schemas. We argue that a significant life change leads to a change in one's self schema and impacts a person's attitudes and behaviors. In this study, we focus on understanding how the presence of children alters attitudes towards insurance.

LITERATURE REVIEW

Schema Theory

At the most basic level, schemas are mental frameworks that help people to organize, interpret and process information. Schema theory states that all knowledge is organized into units and that is how information is stored. To some extent, schema can be understood as stored information or maps that provide templates for activity. Marshall (1993) notes that the value of a schema "lies primarily in problem-solving. When an individual accesses a schema, it provides a template against which to evaluate a current problem and points toward a response." For example, imagine you are in a strange airport. You are not familiar with the specific airport, but you know how airports work and this gives you a framework for proceeding. In sum, schemas are cognitive structures made from past experiences that people draw on to categorize and understand new information (McDaniel, 1999; Stoltman, 1990).

Past work in the area of schema theory has found that there are three strategies that an individual can employ when presented with incoming information: rejection, assimilation and accommodation. First, when inconsistent information is presented to an individual, they can reject or disregard this information (Snyder & Swann, 1978; Swann & Read, 1981). However, if a person is forced to use the incongruent information, they will either assimilate the information into an existing framework (Crocker, Binns & Weber 1983; Kulick, 1983), or change (accommodate) the existing schema so that the incoming information can be integrated (Lynch & Schuler, 1994). The new information may in some cases lead to the creation of a completely new schema. However, it has been widely found that information that is congruent with a schema is more easily adopted and integrated into cognitive structures (Misra & Beatty, 1990; Schmidt & Hitchon, 1999). In this way, schemas are largely reinforcing.

Self-Schema Theory

While the previous discussion frames schemas broadly, there is a considerable body of literature that focus on the effect of schemas in processing information about the self (e.g. Bem, 1981), and this research is part of a much larger interest in social psychology on the role of self-referent thought and behavior in decision-making (Bandura, 1978, 1981, 1982; Swann & Hill, 1982; Zajonc, 1980). This interest is driven by the recognition that a perception of self mediates a perception of the world and understanding individual schemas of self become highly relevant for any consideration of personal motivation.

Self-schema is a term coined by Markus Hazel (1977), which is defined as a cognitive generalization of one's self-knowledge. Self-schema refers to the beliefs and ideas people have about themselves. While self-schemas describe an individual's self-concept, they also organize and direct the processing of self-relevant (Anderson & Sedikides, 1991; Sedikides, 1993) and other relevant (Markus & Smith, 1981; Sekikides & Green, 2000) information. In addition, self-schema also provides incentives, standards, plans, rules and scripts for behaviors (Alexander, 1997; Cross & Markus, 1994; Oyserman & Markus, 1993). In this framework, it is perhaps not surprising that self-schemas have been found to significantly influence the forming of perceptions about others (Lewicki, 1983; Markus & Smith, 1981) as well as assisting in the development of inferences from ambiguous information (Catrambone & Markus, 1987).

Like their more generalized counterparts, self-schemas are reinforced through selective perception of information (Dunning & Beauregard, 2000, Riggs & Cantor, 1984), and likewise are resistant to change (Alicke & Largo, 1995). Therefore, research that has examined changes to self-schema have typically focused on strongly impactful, interpersonal events such as self-schema change among women and children in abuse situations (e.g. Hammen, 1988; Meston, Rellini & Heiman, 2006); self-schema change during the mourning process of a loved one (e.g. Horowitz, 1990); self-schema change as a predictor of and treatment for depression (e.g. Segal & Vella, 1990); and even self-schema change as a result of corporate restructuring (Balogun, & Johnson, 2004).

While these are certainly important events to consider on many levels, these events are extreme and are not necessarily widespread across the general population. Thus, their utility to researchers in the field of consumer behavior is limited. Understanding dimensions of a self-schema in a less extreme situation and in a broader context could greatly aid understanding of consumer behavior and motivation. Interestingly, there seems to be a marked lack of schema research around these more general change events. Therefore the current paper will serve as an exploratory starting point. We will examine the presence of children in a household as an event that we propose is significant enough to modify a schema. Our analysis examines where there are points of differentiation between individuals with children and individuals without children as a first attempt to develop a picture of what a self-schema of a parent may be in the context of insurance purchase behaviors and perceptions.

HYPOTHESIS:

As previously stated, a goal of this study was to begin to establish a context for studying individuals with children. An important element of this is examining a variety of contextual factors that could impact their schema. It is a common belief that new parents often feel time-pressed, have a heightened sense of responsibility, feel cash-strapped, and are overwhelmed by the tasks they now must undertake. For example, when it comes to feeling time-pressed, our internal research has found that parents of young children (under the age of 5) have the lowest self-reported organizational skills, are most likely to report not having enough time, and are more likely to own/use organizational devices (calendars, Blackberry, to-do lists, etc). When it comes to finances, experts highlight the financial burden a child places on parents and outline effective cost savings strategies (Ellis, 2005; Kroll, 2004; Palmer, 2009). Given the increased focus on finances after having a child, we hypothesize that price messages by insurance companies align with a parent's schema and therefore, reinforce a focus on price. We propose the following hypotheses related to purchase preference:

H1: People with children prefer to purchase an insurance policy online compared to people without children.

H2: People with children are more price sensitive towards insurance than compared to people without children.

Similar to research that has been done on depressed individuals which found that selective perception of the environment reinforced their depressed schemas, we suggest that parents with children will selectively perceive threats in their environment, including those associated with an insurance policy. This will reinforce their worry or skepticism.

H3: People with children are more skeptical about their insurance coverage compared to people without children.

We hypothesize that this increased skepticism will impact consumers' attitudes and behavioral intentions. Therefore, we propose the following:

H4: People with children are less satisfied with their insurance provider compared to people without children.

H5: People with children are less likely to continue doing business with their insurance provider compared to people without children.

The question that this raises is:

Research Question 1: How can companies address this skepticism and lack of loyalty among people with children?

In the interest of developing the schema profile for parents with children, we recognize that there are many individual traits and social factors that could enhance or diminish the impact that a child has on an individual's schema (e.g., age of parents, length of marriage, socioeconomic status, education level of parent, number of parents in household). In this particular work, we will explore the unique areas of differentiation around the age of child in the household. We believe new parents' schema will vary with that of parents with older children, and that these differences will impact insurance-related expectations, attitudes and behaviors.

Research Question 2: How do parents of young children differ from parents of older children (if at all)?

METHODS:

The analyses for the following paper are based on a re-examination of two existing datasets. One dataset is a large tracking study with a large combined sample (N= 102,903). The other study is a bi-annual measurement study with a smaller (though still robust) sample size (N= 3,503). Each study uses online panelists who were compensated for participating in a research study on insurance. Reported findings were corroborated across these two datasets before considering any finding significant.

Analysis

A series of t-tests was conducted as the main analytical tool for this work. A question may arise as to why t-tests were used. This was a methodological consideration that presented itself in the course of analysis for this paper. Ideally, regressions would be able to control for a variety of demographic variables – particularly age. However, there is a confound between age and classifying parents based on the age of their children. It is logical that there would be a strong relationship between parent age and age of child. Through a regression analysis, we did find that controlling for age accounts for much of the unique variance associated with being a parent. As a way to assess whether a difference was due to age of parental impact, cohorts of non-parents who were comparable in age were created in the data and examined as a comparison point. Even though this confound suggests that there could be an interesting taxonomy of parents that could be created by combining age of parent and age of children, for the scope of the current study t-tests with the cautionary checks of cohort groups were viewed as logical (albeit simplistic) in developing this program of research.

Cohen's d was computed for each t-test to get a rough idea of effect size. While there is some acknowledged debate over the exact method to calculate an effect (see Rosnow & Rosenthal, 1996), Cohen's d is growing in popularity and is increasingly a standard in social science. More importantly, Cohen's (1992) suggestion that effect sizes of .15 are small, .50 are medium, and .80 are large enables a comparison of effects to generally established benchmarks.

RESULTS

Hypothesis 1 suggests that people with children prefer to purchase a policy online compared to people without children. People with children are more likely to prefer the convenience of purchasing a policy online compared to people without children ($\underline{t}$ = -27.8, p<.001, Cohen's *d* = -.19). In fact, research found that people with children were less likely than people without children to feel that insurance was too important to purchase online ($\underline{t}$ = 14.1, p<.001, Cohen's *d* = .10). Taken together, these findings support the initial hypothesis that the presence of children evokes a greater preference for purchasing an insurance policy online.

Hypothesis 2 suggests that people with children are more price sensitive towards insurance compared to people without insurance. People with children are more likely to regularly shop around for insurance ($\underline{t}$ = -14.3, p<.001, Cohen's *d* = -.10) and are more willing to switch an insurance provider to save money on their insurance coverage ($\underline{t}$ = -30.8, p<.001, Cohen's *d* = -.22) compared to people without children. Therefore, this hypothesis is supported.

Hypothesis 3 argues that people with children will be more skeptical about their insurance coverage compared to people without children. The research found that people with children are more likely to fear that they purchased too much insurance ($\underline{t}$ = -2.1, p<.05, Cohen's *d* = -.08), and fear what is not covered (the fine print) in their insurance policy ($\underline{t}$ = -2.6, p<.01, Cohen's *d* = -.09) compared to people without children. There was support for this hypothesis.

Hypothesis 4 states that people with children are less satisfied with their insurance provider than people without children. This hypothesis was supported ($\underline{t}$ = 11.5, p<.001, Cohen's *d* =.08).

Hypothesis 5 suggests that people with children are less likely to continue doing business with their insurance provider than people without children. Findings reveal that people with children are less likely to continue doing business with their insurance provider compared to people without children (t = -27.8, $p<.001$, Cohen's *d* = -.19). There was support for this hypothesis.

Research question 1 asks how companies can address the proposed skepticism and loyalty across people with children. In the insurance industry, there appear to be several tactics to address this disposition across people with kids. First, compared to people without children, people with children are more likely to feel it is important for them to access their account information activity online at their convenience (t = -30.1, $p<.001$, Cohen's *d* = -.21). Second, parents with children appreciate frequent check-in calls from their agent/company more than people without children (t = -8.8, $p<.001$, Cohen's *d* = -.06). Finally, people with children are more likely than people without children to engage in a lot of research prior to purchasing insurance (t = -4.5, $p<.001$, Cohen's *d* = -.17).

Research question 2 explored differences between parents of young children (five and under) compared to parents of older children (6-18 years old). A simple examinations of means suggested directional differences in these two parental groups in several areas: *research*, *price sensitivity,* and *contact with company*. Specifically, parents with younger children were the people most likely to do a lot of research on insurance before purchasing, most fearful of not getting the best price and most likely to switch to save money. This makes logical sense given that parents with young children are more likely to be experiencing and adapting to a change in their schema. However ANOVAs did not find these mean differences to be statistically significant. However, this point merits mentioning as a direction for future consideration. Parental groups are not monolithic. As a future endeavor, it is possible that a more refined measurement or taxonomy of parental groups could yield some important distinctions that this initial examination has missed.

DISCUSSION

In general, this research confirmed that when it comes to insurance, people with children have different attitudes, preferences, and evaluations compared to people without children. These findings have implications for both academics, as well as practitioners.

From an academic perspective, this work provides initial evidence to suggest that a key life event, such as having a child, instantiates a change in an individual's self-schema. Consistent with work in the area of schema theory which found that one's self-schema mediates perceptions of the world, this work suggests how self-schema influences preferences towards insurance companies. Compared to people without children, people with children are more price sensitive, more skeptical about their insurance coverage, less satisfied with their insurance provider and less likely to continue doing business with their provider. In addition to this, people with children are more likely to prefer the conveniences offered by the online channel, including purchasing their policy online and accessing their account online when they desire. In a much broader sense, the work suggests that an examination of schema could be an important consideration for consumer behavior literature in general.

From an industry standpoint, this exploratory study highlights the importance of understanding key life events in meeting the needs of your potential consumer targets. This work demonstrates how research can be used to guide the development of actions/tactics to address existing concerns, attitudes and preferences. When it comes to insurance, for example, this research uncovered the importance of making company and product information available online and taking steps (such as a check-in phone call) to reduce the skepticism that this group currently has towards insurance. It highlighted the fears that are more dominant in people with children and their preferred insurance shopping and purchase activities. By studying shifts in a consumer's schema over time, one can better design marketing messages and programs, as well as service activities, to meet the needs of various customer segments.

LIMITATIONS AND PROPOSED NEXT STEPS

This work is a first step in understanding how life events impact people's schemas and as a result, impact consumers' attitudes and perceptions. This research, as is the case with most research, is subject to many challenges. Given that existing data was utilized and re-purposed for this task, the results were limited to what was already available and only allowed for a cursory look at different parental groups. There appears to be ample opportunity for a much broader look at this area and for more developed measurement.

We propose future work in a couple areas. First, given that this study focused on differences between two groups of people (people with kids vs. people without kids), we suggest conducting a longitudinal study to confirm that the difference between these groups are not due to selection bias, but rather a change in a schema. Second, we recommend future research explore not only additional life events (e.g., marriage), but also the impact of these events in a variety of other financial service industries (e.g., banking, retirement savings, financial literacy). For example, does marriage lead to an increase perception in importance of financial literacy? Does having a child heighten the importance of retirement savings? Even in a more general context, the question that remains to be answered is how do perceptions of insurance fit into a broader context of financial service perceptions. Exploring how the domain of financial services is mediated by individual's self-schemas could open up a new way to understanding perceptions of these financial services.

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