

# **The Market for Information Protection Insurance**

## **A Research Summary and Analysis**

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## EXECUTIVE SUMMARY

Identity theft has emerged as a serious concern in the United States in recent years. Increased media coverage of identity theft in conjunction with nationwide post-September 11 paranoia, has raised public awareness on this issue. The general public is now more worried about the security of personal information (P.I.). Through an online survey, we conducted a test to see whether this level of awareness and fear is strong enough to entice people to pay for an insurance plan that will protect their P.I. and/or personally identifying information (P.I.I.). We have concluded that there is a market for this kind of service. A majority of people are willing to pay for it and on average they expect to pay \$88 a year for this protection.

Our approach was to examine several variables that will affect an individual's inclination toward disclosing and protecting information, including: general demographics, predisposition to fear, reaction to monetary incentives and the identity and medium of the source soliciting the information. We also compared discrepancies between one's willingness to pay to protect P.I. and P.I.I. versus one's willingness to accept money in exchange for them.

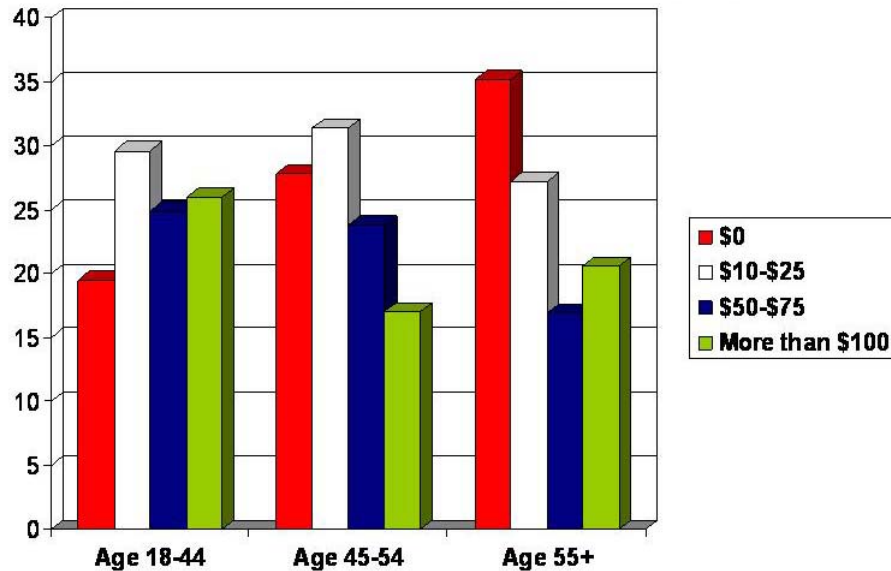
We recommended companies that pursue this market consider the following findings when marketing identity protection insurance:

- **Older Americans are less willing to pay to protect P.I.** We grouped the age variable into three categories: 18-44, 45-54, and 55+. Regarding 81% of the collective pieces of personal information, the 55+ age group was least likely to pay any amount of money to protect P.I. Additionally, the 45-54 group was more disinclined to pay to protect their information than the 18-44 group. Finally, when asked if they would pay for a type of insurance that would guarantee protection in the event that their information would be stolen and used fraudulently, the 55+ group was significantly less willing to pay for insurance (see figure 1).
- **The affluent are more willing to pay to protect their P.I.** We divided income into three categories: \$40K, \$40K-\$75K and \$75K+. For 94% of the collective pieces of personal information, the lowest income group was least willing to pay any amount of money to protect P.I. For 88% of the collective pieces of personal information, the highest income group was most willing to pay for insurance protection. Therefore, our findings coincided with our expectations that the wealthier an individual is, the higher tendency he/she has to spend money on protection insurance.
- **Most people are worried, even paranoid about giving away their P.I.** For more than half of the examined categories, at least 80% of respondents were unwilling to give away personal information for free. Overall, we infer that people would be willing to pay at least some amount of money to protect that information from being used fraudulently by others. However, to our surprise, many among those being surveyed are actually not willing to pay anything to protect their P.I. (see figure 2b).

- **Certain information is more sensitive than others.** We propose a type of insurance that would protect social security number, credit card information and other highly guarded information as a practical and a profitable solution to quell the average consumer's daily fears in the long term (see figures 2a and 2b).

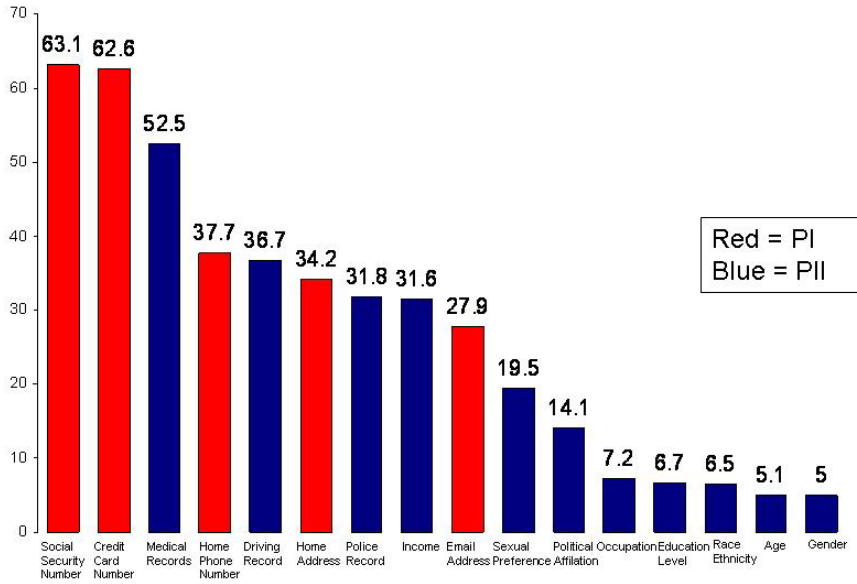
**Figure 1**

Percentage of respondents (in categorized age groups) willing to pay for insurance



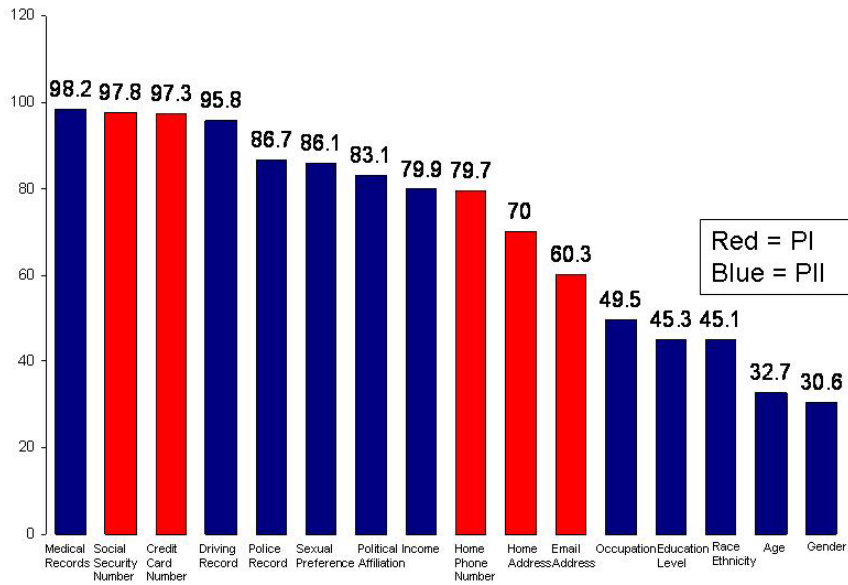
**Figure 2a**

Percentage of respondents willing to pay to protect the following information (%)



**Figure 2b**

Percentage of respondents unwilling to disclose information for free (%)



## ANALYSIS DETAILS

### The “Fear Factor”

Making our proposed insurance plan a marketable product would depend on the average consumer’s level of fear. After all, insurance protects against future uncertainties and enhances an individual’s mental well-being. Identity protection insurance should target individuals who strongly exhibit traits of being fearful and least trusting of others. We asked some questions in order to determine which respondents were likely to experience this fear and then analyzed their levels of fear to determine if there is a strong correlation between this trait and willingness to pay to protect P.I.. We derived the following information:

- **People are more suspicious or fearful when disclosing P.I. over the phone than when disclosing it online.** Whenever an individual conducts a business transaction over the phone, he/she runs the risk of entrusting his/her personal information into the hands of a stranger (i.e. a customer service representative, a telemarketer, or a marketing survey researcher). Facing an increasing number of identity theft cases, consumers would rather confide their information to a machine (the Internet) rather than to another human contact (via the telephone). Twenty-four percent of respondents said they are comfortable or quite comfortable giving away information online using a credit card, compared to 6.5% who are comfortable giving it away over the phone.
- **When asked about paying for identity protection insurance, fearful people are less willing to pay for this coverage (\$16 average) than non-fearful people.** When phrased as a “protective” question (fraudulent/identity stolen), fearful people are more willing to pay for coverage. This may mean that use of the phrase “identity theft” is more likely to elicit or prompt a certain kind of response regarding P.I.
- **People who say they are concerned with identity theft comprise a complex target audience:**
  - The majority of people (54%) say they are “somewhat concerned” with identity theft and would pay the middle range insurance policy price (\$10-\$75) to protect their information. It would seem likely that people who are most concerned with identity theft would pay the greatest amount of money for such an insurance policy, however, this is not the case.
  - Of the people who said they were “not concerned” with identity theft, over 50% are still willing to pay to protect themselves. Thirty percent of the people who are “very concerned” about identity theft are willing to pay more than \$75 for insurance. There is no statistical significance between people who are “somewhat concerned” and those who are “very concerned” in terms of willingness to buy the insurance.

- One would expect that people who are allegedly “not concerned” with identity theft would not be concerned about it happening to them in the next five years. However, 45% of those people said they are “very concerned” that it could happen to them. Only 11% of those people said that they are “not concerned” with identity theft happening to them in the next five years. These statistics are helpful, but only in the sense that they show that these specific people do not have a stable notion of their supposed comfort with the issue of identity theft.
- Ninety six percent of “fearful” people say they are concerned about identity theft happening to them in the next five years. “Very fearful” people are much more ingrained in their notions and attitudes towards identity theft.

## The Age and Income Paradox

Age and income are significant factors to consider in marketing this type of insurance. As mentioned previously, as age increases willingness to pay for this type of insurance decreases; and as income increases, willingness to pay for this type of insurance increases. Based on the following information this will appear to be a paradox, but there is reasoning that explains the unusual, almost illogical role that age and income play on willingness to pay to protect personal information.

- **As age increases, the level of fear/suspiciousness increases:** The 55+ age group was least willing to disclose P.I. for free for 75% of the categories. This reflects the fact that older people are generally not as accepting and trusting of newer technology. In our sample, we found that within the 55+ age group, 9.1% of individuals do not make credit card purchases online and 15.3% will not make purchases over the phone. Furthermore, older individuals are least willing to disclose zip codes or use loyalty cards in grocery and convenience stores.
  - **Our take:** As previously indicated, there is a disconnect between admitted fear and related actions taken. It appears that people believe they either deserve this type of protection for free or they are not as worried as they say they are. As people get older they would most likely gain the most emotional benefit from this insurance, but that simply is not enough to get them to believe that they should purchase it for that benefit.
- **People with a middle range income are least fearful/suspicious.** We found that as income either increased or decreased away from the average, willingness to disclose various pieces of P.I. for free decreased. For 69% of the categories, the middle income group was most likely to divulge that piece of P.I. for free. The middle income group was least likely to disclose the piece of P.I. in only 12% of the categories.

- **Our take:** Once again, stated fear and related actions do not match up. People in the middle income bracket are least suspicious of others. People above the average believe that others might be trying to take advantage of them and therefore would be hesitant to give away P.I. People earning below the average income believe that they have a lot to lose and should be protective of what they do have (privacy as opposed to wealth). This group is actually slightly more protective of their P.I. than the highest income group is (more willing than highest income group to disclose P.I. 44% of the time). However, they do not have the extra money to spend on this type of insurance. Therefore, while they would get the most emotional benefit from the insurance, they are least likely to buy it.

## **How to Make it Work: Emphasize an Enhanced Sense of Security**

**Factors to consider.** The key to success in this competitive industry is customizable insurance that allows consumers to protect their credit card number, social security number, medical records or a combination thereof. These are clearly the most sensitive pieces of P.I. and it is not reasonable to offer insurance to people to merely protect their e-mail addresses when they solely wish to protect their social security number. As to pricing, on average, respondents willing to pay indicated that they would spend \$88 to pay for insurance to protect their P.I.

**The audience to target.** Young affluent professionals comprise the most profitable segment of the population to target. It would not be as lucrative to target adults ages 45+, who are not as receptive to purchasing this type of insurance.

**Type of marketing to launch.** There is a large discrepancy between one's willingness to pay to protect P.I. and one's willingness to disclose P.I. for free. In general, despite respondents' overall reluctance to disclose information for free, they are 30% less likely to pay to protect P.I. Even though people claim that they value their personal information, they are actually unwilling to pay for insurance to protect it.

# APPENDIX

## METHODOLOGY

The survey was conducted online during the third week of March, 2005. The sample of 1,049 participants (463 male, 586 female) was provided by online panel company Survey Sampling International, Inc. and the survey was conducted using Global Market Insite's online survey tool, Net-MR. As an online survey, the opinions reflected here only represent the two-thirds of households with regular Internet access. For comparison, the margin of error for a randomly selected sample this size is +/- 3%.