

Electronic Insurance Service Concept for Consumers – Managers' Future Visions

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Abstract

This qualitative study examines the future visions of the Finnish executives within financial and insurance sector towards the development of electronic non-life insurance services for consumers. The timeframe for visions was five years. Theoretically, the focus of this article is on new service development (NSD) and especially, service innovation approaches. Managerial perspective in the context of electronic insurance services is somewhat neglected area of research. However, this article provides useful and practical guidelines for future development work of electronic insurance services. Theoretically, this article provides a fresh approach on evaluating the level of innovativeness and new service development. *Innovativeness matrix* is developed as a tool for that purpose. The results of this article suggest, among others, that networking between insurance industry and service providers of other service branches will be increased and, insurance services could be more standardized. In addition, customers own activity in transactions and easy-to-use characteristics in services should be emphasized.

Keywords

electronic insurance services, managerial perspective, service development, innovation approach

Introduction

Since the beginning of the new millennium insurance companies all over the world have seriously been shifting their services to the electronic environment, especially to the Internet. On many developed insurance markets (e.g. USA, UK, Germany, and Nordic countries) the basic infrastructure for electronic customer transactions has already been constructed to the Internet. However, at least two critical tendencies are reflecting the current state of electronic insurance services available on the Internet. First, electronic insurance service channel is lacking customer orientation, because self-service has been the main feature for customers' actions. Second, there still is a long way to the comprehensive utilization of the strengths of the electronic channel, and thereby getting customers better engaged in electronic service environment.

In this article the visions for the future development of electronic insurance services are investigated from managers' point of view. The paper is structured as follows: in the beginning, the perspective and objective of the study is introduced. In Chapter 2 theoretical background of the study and theoretical framework are elaborated. Methodology is discussed

in Chapter 3 and results of the study are presented in Chapter 4. Finally, the results are discussed in Chapter 5 and conclusions are suggested in Chapter 6.

Research objectives

Future visions are natural starting point for new service development and innovations. Certain guidelines have to be created so that the development path starts to take form. Customers' opinions and ideas are, of course, important in the new service development, but they must be adapted to the culture and strategy of a company. Managers' insights represent this side of the coin.

The main objective of this study is to examine managers' future visions in financial sector concerning the development of electronic non-life insurance services offered for consumers. Timeframe of visions is five years. The research question reflecting the objective of the study can be set as:

What kind of non-life insurance services will be offered for consumers in electronized service environment in 2010?

The article is positioned theoretically on new service development and especially focused on service innovations. Referring to the fact that insurance business is often characterized as conservative and stable, it may be worth to discuss if that context restricts the creativity of the managers.

Perspective of the study

Electronic insurance business is sparsely examined area in academic service business research in general. So far the topic has mainly been approached either from customers' perspective (see e.g. Maurice 1999; Gjertsen 2000; Järvinen et al. 2001; Ahonen & Salonen 2005) or employees'/brokers' perspective (Eastman et al. 2002). In addition, the suitability of insurance to the Internet (Hoffman 1997; Esters 1997; Stucker 1999) has been examined.

Managerial perspective for electronic insurance services has been rather neglected area of research. Among the few studies published in this area are the articles by Järvinen & Järvelin (2002) and Arnold et al. (1999), but since then the Internet business has developed, and customers' attitudes towards the electronic insurance service channel have become more positive (Ahonen & Salonen 2005). Along with this development, the motivation of insurance companies to develop electronic insurance services also has increased, which have been materialized as more extensive electronic insurance service environment.

Managerial perspective is important also for several other reasons. *First*, representatives of top and middle management play key roles in new service development and innovation processes. *Second*, managers represent a realistic view of insurance business, because they are tightly stuck in current reality and processes. *Third*, as a consequence of the above, managements' visions tend to become reality in some period of time. *Finally*, in future research and development of electronic insurance service environment managers' practise and visions can be reflected to customers' perceptions. It is an ideal way to discover the extensive knowledge from both sides and to assist launch of successful innovations.

Theoretical background

The academic service literature is departed from product marketing, and similarly service development is distinguished from product development. However, as far as the development process itself is concerned, there are similarities between service development process and product development process. In the service and operations management literature the service development is seen to follow the traditional stages of concept development, prototype development, prototype testing and launch (Voss et al. 1992).

Service development can conceptually be approached from various perspectives. According to Menor et al. (2002) the two constructs “service development” and “service innovation” have been used interchangeably in earlier research. The former refers to the service management and marketing principles by focusing on, among others, the idea of service quality while the latter refers to economics and business strategy principles by focusing on entrepreneurship and technological development. However, *service innovation* is often seen as a more extensive construct than *service development*. Menor et al. (2002) suggests that service innovation and service development can be distinguished in a way that the former describes the strategic implications of offering new services and the latter describes the tactical management of development activities.

Within service management and marketing paradigms, several terms are used to describe how service organizations design new service offerings from either customer’s viewpoint or organization’s viewpoint. In that context, new service development (NSD) is widely acknowledged construct (Goldstein et al. 2002). NSD is defined as the “overall process of developing new service offerings” (Johnston et al. 2000). However, creating completely new services is necessarily not the only solution in the situation when old traditional services become outdated and/or ineffective. It has been proposed that service re-design can also be a competitive option. Service re-design is defined as “the reconstitution, rearrangement, or substitution of processes of already existing service” (Berry&Lampo 2000).

Innovation has been discussed many decades in the academic literature. Sundbo 2001 (referring to Schumpeter 1934) defines *innovation* as “the introduction of new elements or a new combination of elements in the production or delivery of manufactured and service products.” The focus of this article follows this definition of innovation. *Service innovation* is newer sub-construct of innovation. It can be defined either narrowly concerning “idea generation“ phase of the NSD process only (Edwardsson et al. 2000), or widely incorporating the whole process of service development (e.g. Sundbo 1998, 2001).

For evaluating the level of service or innovation development, several classifications of services have been proposed. Taking a perspective of new services Carman and Langeard (1980) have identified new services as either core (provide direct customer benefits) or peripheral (support or improve a core service). Furthermore, strategically they argue that new services can be described as *multisite* (new sites providing the same service to the same customer segment), *multisegment* (using the same site and service but attracting new customer segments) or *multiservice* (adding new services to the same site for the existing customer base) depending on the focus of the growth strategy. More recent classification partly following the similar approach has been proposed by Johnson et al (2000). In table 1, the classification of service innovations within two main categories is depicted. Radical

innovations can be characterized as “offerings not previously available to customers or new delivery systems for existing services”. Incremental innovations are “changes to existing services that are valued as improvements” (Fitzsimmons & Fitzsimmons 2006).

Table 1. Classification of new services (Johnson et al. 2000)

| New service category | Description |
|--|--|
| Radical innovation | |
| Major innovation | New services for the markets as yet undefined; innovations usually driven by information and computer-based technologies |
| Start-up business | New services in a market that is already served by existing services |
| New services for the market presently served | New service offerings to existing customers of an organization (although the services may be available from other competitors) |
| Incremental innovations | |
| Service line extensions | Augmentations of the existing service line such as adding new menu items, new routes and new courses |
| Service improvements | Changes in features of services that currently are being offered |
| Style changes | Modest forms of visible changes that have an impact on customer perceptions, emotions, and attitudes, with style changes that do not change the service fundamentally, only its appearance |

Our main theoretical focus lies on innovation approach in designing and developing new services. In addition, insurance managers were also instructed to consider insurance service concept (new services versus service re-design), which connects service development approach into our study. Sundbo (2001) proposes that three phases can be distinguished in an innovation development process as follows: 1) *Initiation phase*, 2) *development phase*, and 3) *implementation phase* (Figure 1).



Figure 1. Phases of innovation development process (Sundbo 2001)

Furthermore, Sundbo (2001) has suggested three other approaches for an organization generating new ideas. These approaches are: 1) *management initiation*, 2) *initiation from below (employees)*, and 3) *the formal knowledge or R&D approach*. In this article we follow the logic of Sundbo, and combine the three latter approaches to initiation phase.

Innovation research in the financial sector is a relatively new area, and it can be divided to three angles: one set of studies have concentrated on the definition of success for the new financial services. A second stream focuses on activities undertaken during the financial service development and the third one emphasizes the role of organization's form and leadership. (Lievens & Moenaert 2001) In this study our goal was to encourage managers to be as innovative as possible in creating new ideas for future electronic insurance services. Therefore, it can be stated that our study do not clearly follow any one of the three angles, but it can be placed to the last angle.

The theoretical framework of this article (Figure 2) is based on the model of innovation creation phases by Sundbo (2001). In this study we concentrate on the first phase of innovation development process, namely the *initiation phase* and leave the other two phases outside the scope of the study. *Management initiation* refers to managerial perspective. Outputs of the initiation phase are called *radical innovations* and *incremental innovations* and they are adapted according to the new service classification model by Johnson et al. (2002). As service innovations in the theoretical sense can be either totally *new services* or *service re-design*, i.e. existing services with minor changes (see e.g. Berry & Lampo 2000), both alternatives are included in our framework.

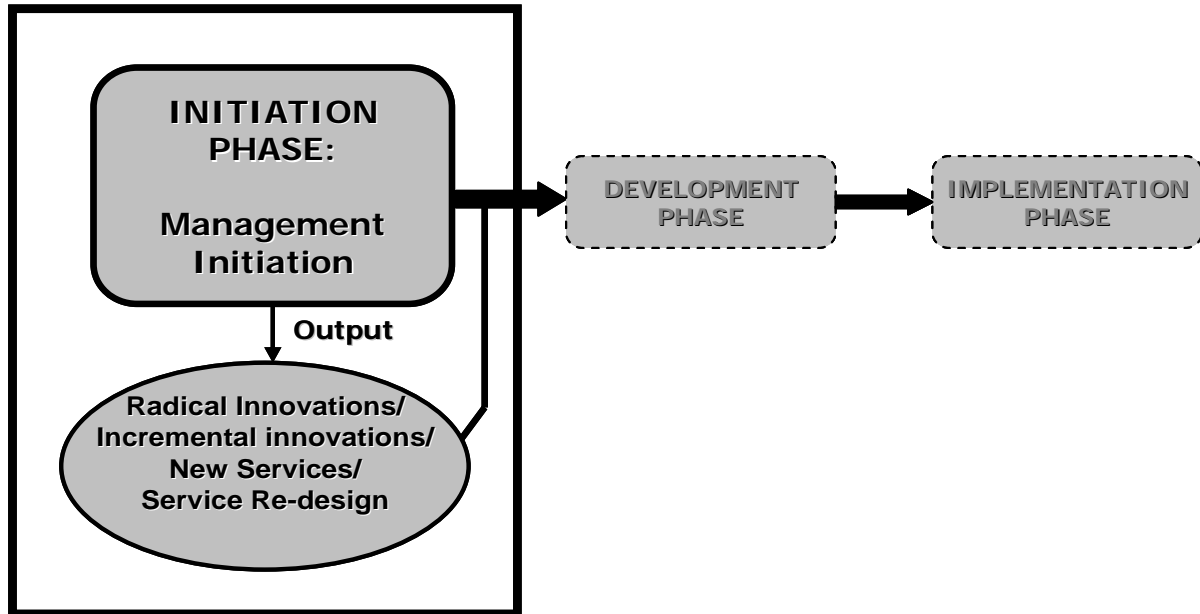


Figure 2. Theoretical framework of the study

The theoretical framework presented in Figure 2 can be used as a general framework in service sectors. However, all service sectors are not alike when innovation processes are concerned. It is well known that there are sectors like telecommunication, that can be considered fairly innovative, but the insurance sector is known rather conservative and stable in many respects, e.g. laws, official instructions and actuarial rules bind companies (see e.g. Järvinen 1998). Thus, our study was assumed to be challenging because of restrictions in the context and a work load of all daily routines that easily kill the creativity.

Research methodology

Different forms of interviews are widely used as a method in qualitative management research. In this case, the main objective was to gather data of future visions concerning non-life electronic insurance services from the managerial perspective. Therefore, instead of interviews the executive focus groups were chosen as a method of the study. However, the focus group method was adapted to better match to both the research composition and purposes of this study. Here, research participants were instructed to work collaboratively in groups and produce the joint opinion of the group instead of interviews.

The advantage of a focus group method is that participants are able to discuss various phenomena in depth and from various points of view (Heiskanen et al. 2005). In addition, focus groups can invent ideas by discussing or even brain storming with each other, which may lead to more creative results than working alone. Moreover, the group often have to compromise in choosing most relevant ideas and it also has better ability to develop ideas into practical concepts than individual working. For above reasons, focus groups have used recently in local development projects (e.g. Woolley & Spencer 1999), developing product concepts and new ideas (Nielsen 1997, Kuhn 2000).

The empirical study was carried out in May 2005. Altogether 19 participants were divided to six focus groups, each consisting of 3-4 members. Each group had 1½ hours time to prepare one slide for presentation of their visions. In addition, each group also wrote a report from 1 to 3 pages. The research participants were all working in middle- or top management positions in Finnish insurance and financial sector. Each group was given the same task. They were instructed to consider what kind of electronic non-life insurance services will be offered in 2010, what kind of new business innovations there will be and what will be the phase of electronization in the non-life insurance services. Before the research participants started accomplishing the task they were only loosely instructed about the issues they would be considering. Thus, it was foreseeable that the results would be versatile and therefore, it was justified to consider data classification in the data analyzing phase.

The analysis was started by organising the contents of presentations and reports in one table. The next step was to group the data in order to draw a clear picture about the findings. In that stage three levels of visions were identified and they were titled as follows: 1) *business development level*, 2) *insurance service development level*, and 3) *e-Service priorities level*. Another part of the data analysis was the evaluation of the innovativeness of the executives. In order to consider all the aspects that rose up from the data, the two-dimensional *innovativeness matrix* was constructed.

Managers' visions in three levels

In this chapter the essential empirical findings of the study are discussed. Three identified levels of visions including descriptions of their contents form the structure of this chapter. Business development level represents a top level strategic perspective affecting all functions in insurance organisation. The next level, insurance service development level, is partly strategic and partly operative and it concerns only some parts of the organisation e.g., redevelopment of one or several new insurance lines or reorganising the processes behind the lines. The third level is highly operative consisting of various tasks that the insurance managers would prioritize in the electronization process of services.

Business development level

At the business development level, the strategic “big picture” of insurance business is characterized by the managers indicating where the insurance business is going in the future. In this, the opinions of groups varied a lot, only two groups suggested networking and also two groups chose standardization, otherwise the listed focuses was presented only by one

group. Thus, table 2 represents the combined visions of business development in 2010 by all six groups.

When studying the main focuses in table 2, it is easy to conclude that hardly any insurance organization can choose all presented alternatives for their strategic business development. Instead, they have to make decisions of their own identity and focus. If the vision is independent online insurance company, it may not need co-operation as much as networking alternative. On the other hand independent online insurance company may see national insurance portal as an attractive form of co-operation that also brings new customers, if terms, conditions and price are set favourable for customers. Furthermore, it is most probable that online insurance company relies on high level of standardization.

Table 2. Visions in business development level

| BUSINESS DEVELOPMENT LEVEL | |
|---|--|
| FOCUS | CONTENT |
| Business Standardization or mass customization | Standardization or mass customization are company level strategic business choices (e.g. standard pricing and policies or formed by modules) |
| Network integration/ Networking | Insurance linked to products (car, home, etc.); Network of service providers following customer life cycle in their offering |
| Independent online insurance companies | Online service providers without branch office network or other physical channels offering simple and cheap insurance cover; self service only |
| eInsurance portal | Established in collaboration of whole insurance sector; Ability to compare insurance services. |
| Private files for each citizen: www.citizen.fi | Contains not only insurance services but also banking, taxation, social security and other public services. |

On the other hand, network alternative may lead to co-operation with other organizations in order to establish joint files for all citizens or joint portal. However, an insurance company may choose to develop its strategic business alone and gain competitive advantage by doing its own way.

Insurance service development level

Product development within insurance sector mainly means developing new insurance lines or targeting insurance offer to new customer segments. Visions by each group in that level were closer to each other than in the previous level, e.g., four groups suggested insurance standardization. There were, however, deviation between the groups, when only one group suggested insurance lines formed by various standard modules and one group proposed providing of all care in the Internet, whereas one group pinpointed high deductible. In addition, one group suggested customer life cycle logic as a basis for all Internet services.

Table 3. Visions in insurance service development level

| INSURANCE SERVICE DEVELOPMENT LEVEL | |
|--|--|
| FOCUS | CONTENT |
| Service standardization | Standard form of insurance lines and covers |
| High deductible | Combination of lower price and higher deductible |
| Modules | Insurance cover is formed by various modules chosen by customer |
| Easy-to-compare | Standard terms and covers |
| Customer life-cycle logic | Based on segmentation; each life cycle group is treated individually |
| All care | All care in one contact |

On the insurance service development the visions clearly emphasized standard solutions instead of tailor made individual service for each customer. In addition, easiness was mentioned many times and occasions in the reports, such as easy-to-understand, easy-to-compare, easy-to-contact. Only one group emphasized unique terms connected to standardized insurance lines.

The visions of insurance line and process development presented in table 3 raise a question, whether the highly standardised insurance lines would provide benefit for all customers. In our opinion customers' needs deviate, and therefore, there should be a larger variation of insurance cover available. Otherwise customers are not able to insure all their property they are willing to, and may be forced to live without protection. Even in the electronic environment it is possible to offer more customised insurance services. Namely, technology itself is not the hinder, but rather attitudes towards technology. It may cost efforts, but will be worth of it.

e-Service priorities level

Table 4 provides a list of priorities that managers see utmost important to offer through electronic service channel. Again, groups agreed in certain aspects, but there were visions that no other group shared. Electronic claims service was suggested by five groups out of six, but only one group paid attention to electronic risk management services. All other priorities, private files, electronic client service and informative services, were presented by two or three groups.

Table 4. Visions in e-Service priorities level

| E-SERVICE PRIORITIES LEVEL | |
|-----------------------------------|--|
| FOCUS | CONTENT |
| Claims service | Electronic claims applications, handling and settlement |
| Private customer files | In-time documents of insurance cover. Registration required. Customers responsible for updating their registers. |
| Client service | Electronic client service alone or connected to call center |
| Risk management services | Electronic risk management tool kit |
| Informative services | Information about company, insurance lines and all kinds of documents available |

Insurance sector, otherwise than banking, has not determined the frames of electronic insurance services. Instead, all insurance organisations have developed their own sites independently and therefore, their offering deviate vastly from each other (see also Järvinen et al 2001). There are no strictly agreed rules within the sector with minimum electronic services that each insurance company are obliged to offer. Neither are there standardised forms of electronic offerings. Due to vast variation, it might be difficult for customers to accomplish electronic transactions.

By the aid of table 4 it is possible to start discussion, which insurance services at least should be provided in the electronic environment. Namely, if customers widely knew, which services they are able to use electronically and which varies between companies, it would be easier for them to start transact regularly through electronic devices. As long as customers' own activity is required to solve which insurance services each company provides, it slows down the movement to electronic transactions. In this, we propose co-operation between insurance companies in order to settle minimum frames and standards for electronic insurance services.

Evaluating innovativeness of insurance managers

Based on the results presented in the latter three subchapters we evaluated the level of managers' innovativeness. In order to develop a tool for assessing the level of innovativeness, a framework was constructed. We call this framework as "*innovativeness matrix*", which is depicted in figure 3. The overall innovativeness is perceived here as a combination of service innovation approach (e.g. Johnson et al. 2000) and service development approach (e.g. Berry & Lampo 2000). The X axis indicates the level of innovation (whether incremental or radical innovation), whereas Y-axis indicates the level of service development (whether re-designed service or new service). However, it has to be emphasized that the evaluation of innovativeness is based on subjective interpretation by the authors.

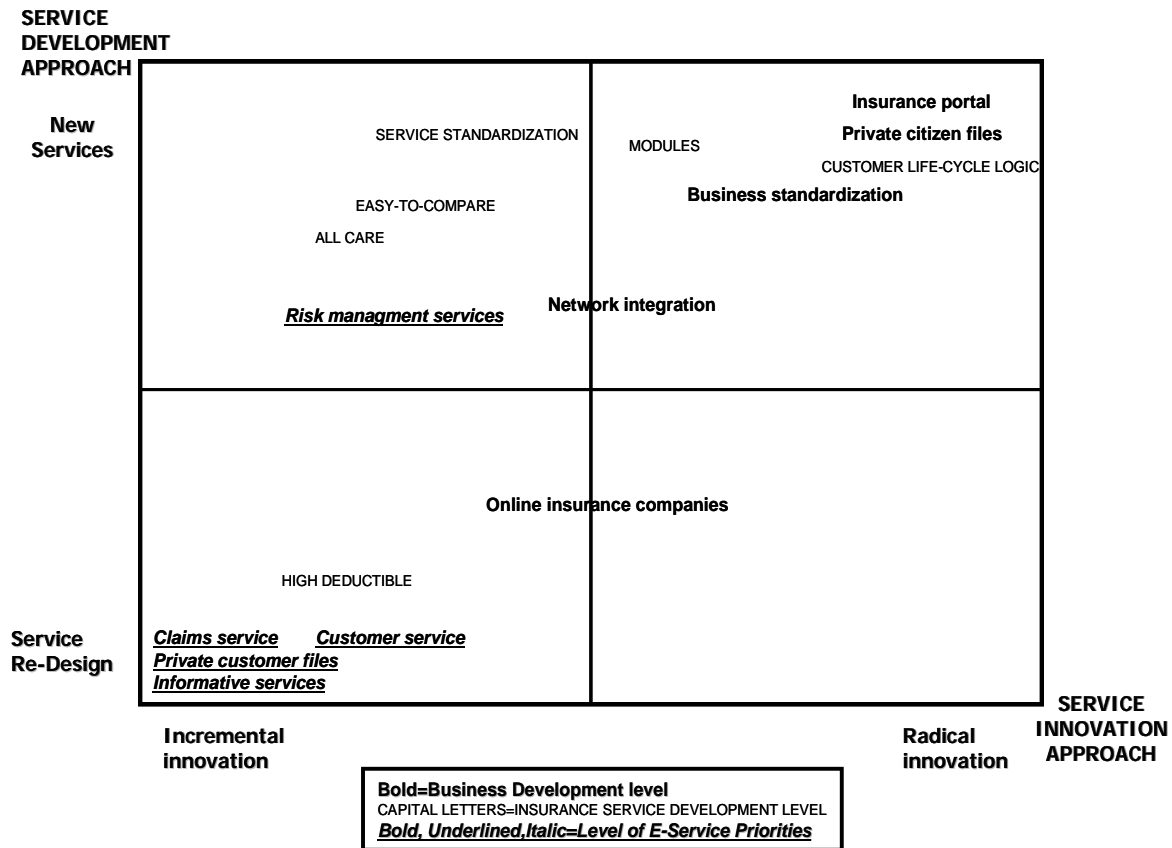


Figure 3. Innovativeness matrix

The responses of the executives are reflected to both service innovation approach and service development approach. The majority of the visions included in *e-Service priorities level* (marked with bold, underlined, italic letters in the matrix) are positioned to the lower left section which indicates most minor innovativeness level.

As far as the *insurance service development level* (marked with capital letters in the matrix) is concerned, all the visions of the executives except one are positioned to the upper section of the innovativeness matrix indicating that the visions at this level are mainly novel solutions not yet utilized within the insurance industry. Vast majority of the visions included in the *business development level* (marked with bold letters in the matrix) are positioned to the upper right section, which indicates the highest level of innovativeness.

Discussion (of innovativeness matrix)

Innovativeness matrix (figure 3) illustrates how the managers’ responses are related to both service development and service innovation approaches. When considering how the visions of managers at three different levels are positioned in the innovativeness matrix, some general tendencies can be discovered.

First, all the visions except one (risk management services) at the *e-Service priorities level* are positioned to the lower left section and, thus, are neither indicating any major service

innovations nor service development efforts. In fact, all the visions (claims service, customer service, private customer files, and informative services) positioned to the lower left section already exist, at least in case of the most developed non-life insurance companies. Electronic risk management services in insurance context have, so far, meant information available on the Internet related to security or possible risks in various life situations. Hence, developing a tool kit where the risks and security information are better illustrated to a customer is something new and therefore positioned to the upper left section. However, the concept of creating a risk management tool kit for customers is not brand new invention within insurance sector. Therefore, *risk management services* are positioned on the upper left section indicating remarkable renewals compared to the current service package but still not extensive innovations to the overall business.

Second, visions categorized to *insurance service development level* are mainly positioned to the upper section of the innovation matrix except *high deductible*. However, majority of visions (service standardization easy-to-compare, all care) are positioned nearer to the upper left section than upper right section indicating that visions at this level represent more like major development in service development context than radical strategic innovation within insurance sector. On the other hand, customer *life-cycle logic* represents the positive edge of innovative thinking in insurance context. Naturally, customers at different phases of life cycle are considered also by present insurance services but mostly through pricing (i.e. same service but age of the customer affects on the price). Here, the idea is that insurance service characteristics are better customized to the needs of the customers at the different phases of their lives.

Third, majority of the visions (insurance portal, private citizen files, business standardization) at the *business development level* are positioned to the upper right section in the innovativeness matrix indicating that these visions represent the most positive edge of innovativeness, related to both service development and service innovation dimensions. In addition, *network integration*, based on collaboration contracts between insurance companies and other service providers (e.g. house electronic stores), is innovative solution within insurance field. However, the logic has already been utilized at least between insurance companies and car dealers. Therefore, network integration is not positioned to the upper right section of the innovativeness matrix. Similarly, *online insurance companies*, although they do not exist at Finnish insurance markets, already exist, for example, in UK and US markets.

Finally, it can be summarized that the visions grouped under the same category were mainly positioned near to each other in the innovation matrix. In addition, it can be proposed that a positive correlation between the level of innovativeness (service innovation approach and service development approach) and innovation categories (business development level, insurance service development level, e-Service priorities level) can be perceived. In other words, the more strategic the vision, the more radical is the innovation – or newer the service.

In general, figure 3 shows that management groups attended to the study have realistic picture what is going to happen within next five years in the electronic insurance business. They realise that new insurance development is required and this calls for redesigning the processes behind electronic functions. Yet, their level of innovation is controlled, as they are aware of the costs and risks of totally new innovations. Namely, the data system investments of new

insurance lines are expensive and data planning takes time. Therefore, new innovations are carefully planned and many lucrative ones postponed because of the investments required.

Conclusions

The main objective of this article was to examine managers' future visions on development of electronic services in non-life insurance context. The main research question was formulated as follows: "What kind of non-life insurance services will be offered for consumers in electronized service environment in year 2010?" Referring to the versatile results of the study, this article draws practical guidelines to the future development of electronic insurance services by providing several useful perspectives for the management dealing with those issues.

Theoretically, the article contributes to evaluating the managers' innovativeness in creating ideas for new services and/or new innovations. Here, the initiation phase of innovation creation process is considered through two dimensions: service development approach and service innovation approach. These two constructs are seen as the core of *innovativeness* within electronic service environment. As a main theoretical result of this article, *innovativeness matrix* is developed as a tool to assess the level of innovativeness of the insurance managers.

Electronic insurance services have developed quite rapidly during the past years and insurance companies still have ongoing projects to improve them. Yet both managers and customers (see e.g. Ahonen & Salonen 2005) agree that online insurance services are about to come. This means, that the attitudes towards electronic insurance services have become more positive along with the development of more versatile and easy-to-use electronic services. However, we believe that the golden times of electronic insurance business are still ahead.

Moving towards better times in electronic environment requires insurance companies to develop their business more customer-friendly. In this, the management has both challenges and routine tasks to carry out. Several published studies (e.g., Järvinen et al 2001; Järvinen & Järvelin 2002; Ahonen & Salonen 2005) so far call for simpler electronic insurance services, as current terms and conditions are too complicated to be moved as such to electronic environment. In addition, clear every day language should be used instead of insurance jargon, more attention should be paid to facilitating the navigating on the sites and, personal files should include "helps" and instructions to assist in transactions.

The great challenge for management is to cope with low frequency in insurance transactions. First step to manage low frequency is the lay-out of insurance sites: they should be so easy, that even those customers using it once or twice a year will manage without any guidebooks. In order to increase customers understanding towards insurance and insuring, combination of picture, voice and motion should be utilized on the Internet, as elements to construct more demonstrative services. If insurance companies provided more comprehensive variety of their services also electronically, it would attract more and more customers to use them within certain time period.

Interactivity is one mean to provide more attractive electronic insurance services. This requires personnel to provide replies without delay and possibility to move from automated self-service to interactive service with voice in those occasions that personal guidance is needed.

So far insurance companies have independently developed their electronic environment, but in the future, co-operation in electronic business development is recommended. There are many alternatives for co-operation. Our study shows, that in business development level companies can create a joint portal, they can form networks with other sectors where insurance would complement other products and services, and they can be one of the actors in providing all citizens private and public services in a form of personal electronic files. In operative level, they can jointly agree the standards and minimum level of electronic insurance services, which improve usability of electronic insurance services in the eyes of customers.

In spite of our recommendations of standards we would like to remind that customers' needs deviate from each other and therefore, individual touch in insurance service offerings provide competitive advantage for insurance companies. Also the manager groups' suggestions support this issue especially in strategic business development level, where groups presented variations in future alternatives.

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