

A study of relationship building skills in the Insurance industry

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Abstract

In order to remain competitive in this borderless world all the financial services providers have to re evaluate their traditional methods of attracting and keeping customers. To be successful in the insurance industry the advisors have to take a closer look at how they treat their customers This study is based o the advisors ability to deliver on factors related to service quality. The measurement scale used in this study is based on importance / performance paradigm. The results of the study reveals that respondents believe that their individual advisor is performing at an above average level.

Key Words: Relationship marketing , Insurance , customers , advisors , factor analysis , performance measures.

Introduction

Many aspects of financial services industry in India have changed since competition from non insurance providers has forced insurance only companies to enter area once considered exclusively part of financial services market.. It is possible today for the customer to distinguish between organizations and their product lines. Intangible assets in particular brands and customers are critical to an organization (Lev, 2001) .In today's competitive environment relationship marketing is critical to banking corporate success. Insurance is customer oriented services industry therefore customer is the focus and customer service is the differentiating factor. (Jha, S.M, 2000) has mentioned that insurance companies have started realizing that business depends on client service and satisfaction of the customer.

The business landscape in the insurance sector is rapidly evolving with an enhanced focus on responsive 'go to market' strategy, innovative and flexible product portfolios, cutting edge processes and systems, robust distribution models, diversified investment options and high quality talent. This new awakening has compelled them to take to improvement in customer service and build relationship with customers. The financial service industry is facing a rapidly changing market, new technologies, economic uncertainties, fierce competition and more demanding customers that have unprecedented set of challenges (Lovelock, 2001). Financial services industry has

undergone a sea change since the times of the Britishers where profit was the prime consideration. It then moved to the socialist era of seventies and eighties where serving the commonest of the common man in the remotest corners of India was the sole objective.

The story of insurance is probably as old as the story of mankind. The same instinct that prompts modern businessmen today to secure themselves against loss and disaster existed in primitive men also. They too sought to avert the evil consequences of fire and flood and loss of life and were willing to make some sort of sacrifice in order to achieve security. Though the concept of insurance is largely a development of the recent past, particularly after the industrial era – past few centuries – yet its beginnings date back almost 6000 years.

Literature Survey

Seemingly overnight, competition has increased tremendously as growing numbers of competitors selling essentially the same products entered the field from outside the traditional insurance industry (Reagan 2001; Brostoff 2001; Hofmann 2001; Hughey 2001).

In addition to the initial flux created for insurance agents, deregulation in the financial industry has also created confusion among the customers. For years, insurance customers have been groomed by the industry to understand and value the role in the financial puzzle that had been assigned to their local insurance agent. Customers could also clearly

distinguish insurance providers from other financial services providers by the way the firms in the insurance industry promoted themselves - e.g. insurance companies.

Likewise, the larger insurance companies have been crossing over into the banking and brokerage industry, leaving even once knowledgeable investors unsure of which firm is actually the parent of the other (Hofmann, 2001). This more competitive and somewhat confusing climate has left many of the smaller independent agencies and their agents concerned about what their future role in insurance sales will be.

The key to small agency survival, however, appears to rest with the traditional agent-client relationship and the individual agent's ability to capitalize and expand that relationship (Regan, 2001; Gronroos, 2000).

As Darwar and Parker (1994) have noted, consumers have neither an infinite time horizon nor do they often have any incentive to compare among competing brands for product quality. Consumers also often base their assessment of quality, particularly for products in which there is perceived risk and lack of personal expertise, on heuristics. The authors have noted that whenever there is a need on the part of consumers to reduce uncertainty, when consumer involvement is low, and when the complexity of the product makes quality assessment difficult, consumers often turn to brand name.

Complexity and uncertainty aside, prudent investors certainly understand the need to protect their assets against the possibility of catastrophic losses and therefore often seek the best coverage they can afford with the most reputable firm. Because the decision on which policy to purchase is one of great importance (due to the consequences of any loss of reimbursement), the choice generally requires customers to search for outside sources of expertise. Not surprisingly, consumers of insurance frequently rely on two primary sources of information as being predictive of that quality. The first relates to the perceived knowledge of what constitutes a quality insurance "brand". This knowledge is often based on heuristics, or, what could be classified as the advertised reputation of the insurance firm providing the coverage. Second, perhaps more importantly from the context of the present study, is the perceived competence of the agent in terms of the advice he/she provides (Darwar and Parker, 1994).

Recent research indicates, however, that the traditional relationship existing between the local agency agent and his client is changing (and has in fact changed) dramatically over the last three decades (Hughey, 2001). This change has been quite negative for many of the traditional "insurance only" oriented independent agents (Dyer, 2000; Thomas, 2000).

As more and more customers become self-educated, they increasingly tend to evolve away from the more traditional agent-client relationship (Reagan, 2001). With the advent of the more technologically savvy and increasingly knowledgeable client, smaller local agencies need to provide additional value-added services, especially if those services are deemed essential to maintaining existing positions in the market. For those smaller local agency agents who do understand the nature of the change that has taken place and who are able to respond appropriately, the future may not look so bleak.

Rationale of the study

In the light of the need to retain customers rather than merely sell them on a single product line, smaller, local agency insurance agents (from now on called as advisors) must focus on developing relationships that endure beyond the last sale. For the purposes of this paper, independent agencies will be operationally defined as locally-owned agencies not identified as being affiliated to any major insurance brand. The primary focus of these agencies and their advisors will be toward providing insurance coverage to individuals and small businesses in their local community, and thus will generally not promote one insurance brand over another.

In general, insurance advisors, like most "intangibles" product/services salespeople, understand how difficult it is to sell potential clients on what essentially would be considered a concept rather than a tangible product. In other words, insurance is a product that many clients may have difficulty in visualizing because of the intangible nature of the service. Effective selling, therefore, requires the agent to develop client confidence as well as personal trust in the salesperson. Second, virtually every salesperson has, at one

point or another, been indoctrinated to the essential nature of keeping existing customers satisfied. This is especially true for insurance sales representatives given:

- the relative intangibility of the product;
- the level of turmoil the industry has undergone over the last decade; and
- the level of competition that now exists for what was once a segmented and rather specialized market.

Objectives of the study

The present study attempts to define attributes of local advisors attributes that customers perceive as being the most fundamental in establishing and maintaining the crucial long-term agent/client relationship that ultimately helps increase profitability. For both the larger firms providing the insurance, and the local independent advisors who usually make the first contact and provide the initial service, the ability to establish long-term client relationships will continue to be one of the key indicators of agent success in this very competitive business (Gronroos, 2000). Given the nature of the product being purchased (e.g. insurance) the authors of the present study make the assumption that a relatively substantial and stable percentage of their customers will continue to rely on the advice and expertise of a trusted agent. This opinion is based on the further assumption that insurance is perceived to be a relatively high-risk, certainly high-complexity, service-oriented product. Anecdotal evidence suggests that many (if not most) consumers will forget about the specifics of their insurance policy (for most, a low involvement product) once the search and purchase process is complete. Yet, during the search and evaluation phase, most rational customers tend to be highly involved -resulting in a heightened cognitive response (Assael and Kamins, 1989). As a result, the present study suggests that many customers actually need to establish some type of relationship and develop a bond of trust with their local agent before they will feel comfortable enough to actually purchase a policy. In such cases, a qualified local insurance agent may not only be considered essential to the transaction, but irreplaceable as well.

The nature of the dynamics existing between the successful local independent agent and his client, if understood, will, therefore, serve to strengthen marketers' overall knowledge

of what constitutes quality insurance service. Finally, The present research study was undertaken to assist the independent agent in developing a framework of intangible personal and professional qualities that (for a substantial portion of the insurance market) many customers have demonstrated that they are willing to pay extra for what finally will lead to relationship building exercise.

Methodology

The data presented in this study were collected in two stages. Stage one consisted of collecting input from focus group volunteers who were experienced in the process of purchasing insurance and who knew what to look for when evaluating agency and advisor performance. These individuals were then asked to provide their own insight into what constitutes a level of service that an insurance advisor would try to provide. Two focus group moderators conducted separate interview sessions, independently evaluating and recording the information obtained from their respective focus group sessions. The results of the two sessions were then compared for evidence of common themes emerging from the two groups of participants. A total of 17 common factors were identified as important elements that an individual, searching for optimal advisors service, would seek from a local insurance provider when evaluating the level of service the typical insurance advisor from that agency would provide. A survey instrument, based on the importance/performance scale, was then constructed from the 17 critical factors determined during the focus group sessions.

The instrument used was divided into four sections. Section 1 of the instrument relates to customers' perceptions of what constitutes an excellent insurance provider. Section 2 ranks the most important attributes of an insurance provider. Section 3 relates to the customers' perception of their own insurance provider. Section 4 consisted of demographic information related to the individual completing the survey questionnaire.

The survey instrument was then mailed to 385 randomly selected customers from a local insurance agency located in National Capital region in Delhi.

Results

Of the 385 questionnaires distributed, 125 usable questionnaires were returned giving, providing us with a response rate of 67 percent. Using items generated from the focus groups, our analysis identified relevant dimensions of excellent insurance agent service. The results and a brief description of the findings are shown in Table I.

Table I shows the rotated factor scores for the service dimension. The eigen value for factor five is 1.118 and 66 percent of the total variance is attributed to the first five factors. Thus, a five-factor model may be adequate to represent the data. The five factors identified are: claims, personal relationships, products/ services, life insurance and agent/benefit. A comparable analysis of the individual dimensions (grouped according to factors) results showed that the respondents believe that insurance services are being performed at a level that is consistent with the importance rating (in a range of 1 to 5) specified by the customer (Table II).

Table I Rotated factor scores

Factors	Category	Factor Loadings
I. Claims/contact		
Agent should approach customer when they have a claim		0.820
A 24 hour claims number should be available		0.853
Ideal claim handled In set time frame		0.832
Claims should be reported directly to agent		0.614
Customers prefer personal contact		0.567
II. Personal relationship		
Came to current agent due to dissatisfaction		0.599
Agent will be easily accessible		0.596
Agent contacts customer with new services		0.797
III. Product/service		

Annual evaluation of insurance coverage	0.773
Agent contacts customer with new services	0.703
Knowledge of ways to get insurance deductions	0.594
Current life insurance is adequate	0.542

IV. Life Insurance

Life insurance is important	0.733
Agent should approach customer about life insurance	0.636
Estate planning is part of the agent's duties	0.605

V. Agent/benefit

Agent has control over rates	0.765
Ideal claim handled by personal agent	0.459

Most of the respondents indicated that they were satisfied with their overall experience with the insurance service they receive. The ANOVA by age and income did not yield any statistically significant difference.

Table II Importance / performance scores

		Rating on	Rating on	
	Category	Importance	Performance	Difference
I.	Services			
	Ideal claim handled by personal agent	4.5760	4.3200	(0.2560)
	Personal contact rather than e-mail	3.8320	3.8800	0.0480
	Agent has control over rates	2.6880	2.7600	0.0720
	Agent contacts customer with new services	4.0320	3.7920	(0.2400)
	Agent contacts customer	3.9120	3.8960	(0.0160)
	Annual evaluation of insurance coverage	3.7680	3.8160	0.0480
	Came to current agent due to dissatisfaction	3.8720	3.9360	0.0640

	Knowledge of ways to get insurance deductions	3.7040	3.7520	0.0480
II.	Life insurance			
	Life insurance is important	4.0400	4.1360	0.0960
	Current life insurance is adequate	4.1280	3.8880	(0,2400)
	Agent should approach customer about life insurance	3.8080	4.0800	0.2720
	Estate planning is part of the agent's duties	3.4400	3.4320	(0.0080)
III.	Claims			
	Ideal claim handled by personal agent	4.5760	4,3200	(0.2560)
	Ideal claim handled in set time frame	4.2960	4.2960	-
	Agent should approach customer when they have a claim	4.1120	4.1520	0.0400
	A 24 hour claims number should be available	4.0320	4.2880	0.2560
	Claims should be reported directly to agent	4.3040	4.3600	0.0560

Conclusion and recommendations

Analysis of the gap scores indicates that the respondents surveyed believe that their own agent is efficient. The following points appear to be critical to the success of insurance advisers :

- When developing strategy, the needs of the customer should be taken into consideration. As implausible as it may seem, in order for an adviser /provider to survive in this very competitive environment, adviser must aim for 100 percent customer satisfaction in a number of critical areas. These include; responsive replies to questions of cost, benefits, and adequacy of coverage; availability of agents locally to address insurance claims issues; and quick return of phone calls and fast turn-around times on requests for information.

- This study has highlighted the importance of developing a personal relationship with the customer. It appears that customers really do expect that most claims will be handled directly by their local adviser and, if not, that the adviser will be closely monitoring the outcome. In addition, the customer's claims should be handled as quickly as possible. Some advisers are required to forward all claim receipts to a claim center - thus limiting the involvement of the advisers in the process. It appears clear from this research that the preferred method is for advisers to handle as much of the local claims request as possible so that interaction with corporate service representatives is held to a minimum. Failure to be present or presenting an image of unconcern when claims become an issue is one area that will eventually create dissatisfaction with the agent.
- The adviser should constantly monitor the level of satisfaction among his/her customers. Routine dialogue is an effective method of keeping abreast of customers and fulfilling their need for routine monitoring. Communication with customer is now an adviser expectation as more and more clients are left feeling as if their business with the service provider is being taken for granted. It is not. Clients do not wish to be referred to by their client account number - which is most often how the larger service representatives refer to them. One of the reasons clients use local agencies rather than going direct to an insurance "e-tailer" is that they want their agents to be able to place a name with a face.
- Keep customers informed of new products/services by regularly mailing them newsletters/brochures, etc. Customers may not initially be interested, but regular mailings tend to remind the customer that his/her adviser is interested in their welfare.
- The insurance sector continues to be a volatile area in which customer loyalty is often based on personal experience with the agent. Good relationships can quickly turn sour with even one negative encounter. Advisers should, therefore, remember that maintaining a high level of customer satisfaction often means going the extra

mile for the client by providing such non-fee-based services as ending out periodic client financial statements, providing routine insurance evaluation updates, providing customized estate planning services, and offering tax-favorable investment products. Customer satisfaction is die key to adviser survival in this climate and agents should therefore try to put themselves in the customer's position before reacting negatively to what appears (to the customer) to be reasonable requests for service.

- Advisers need to be perceived as maintaining a high level of expertise in their field. On-going training, as well as the advisers having obtained several certifications in his/her title, gives the impression that the agent is indeed a licensed professional in the field. Continuing education is thus considered a crucial factor in maintaining legitimacy in the eye of the client.

In conclusion, local independent advisers are not at a competitive disadvantage when it comes to maintaining a position in the insurance sales industry. While many independent advisers have been wrongly led to believe that the insurance industry has changed to the point that they can no longer compete effectively, the present research suggests otherwise. In fact, the present research suggests that for a fairly large segment of the insurance market, the independent adviser may serve an invaluable and often irreplaceable function. In order to attract and maintain long-standing client relationships, however, advisers must realize that the reason many customers are attracted to local advisers rather than direct-to-customer providers is because they want to have someone local they can speak to about helping them solve their problems. Many customers are uncomfortable with having to deal with service representatives that they will never actually see, at times many of whom are perceived as being unconcerned and in some instances, rude. Clients thus often correctly arrive at the conclusion that they are simply a number to the other service person on the phone, located, in some cases, hundreds of miles away.

The results of this study suggest that some insurance customers will undoubtedly continue to need the help of local advisers. Whether an adviser is to be defined as someone whose advice is taken seriously may depend on how well the adviser is able to

communicate his value. Independent agents who have demonstrated the ability to effectively communicate information and provide services that are deemed essential to effective problem solving will no doubt be able to sustain long-term business relationships with their customers (Gronroos, 2000). Those who fail to form bonds of trust that develop with constant dialog, mutual information sharing, and shared problem solving, will undoubtedly be doomed to shorter careers.

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