Impact of Relationship Marketing on Customer’s Behavior in Insurance Services

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Abstract

There is little research concerning insurance companies and their relationships with corporate customers. Most of the previous studies have been from the insurance companies point of views and have focused on other, although related subjects(cf. Jaensson.1977). Thus there is clear need for further research in this field of financial marketing with a relationship perspective. Conceptual development is needed in insurance marketing, as financial markets are part of dynamic business environment. One major area to be exposed is the importance of relationship management in the insurance business, particularly in terms of relationship perspective for the study of insurance services, marketing and secondly, to draw some conclusions concerning this field.

Keywords: Relationship Marketing, customer’s behavior, Loyalty, Mistrust.

Introduction

Deregulation and internationalization of international financial market has created a new, increasingly competitive business climate. The financial markets are in a state of flux, where mergers between insurance companies and banks and cross selling of financial services are becoming increasingly common. This affects all financial players who have been accustomed to a regulated and stable market. In order to retain and strengthen relationship insurance firms are working behind their existing customers more closely to them.

During the last decades competition has intensified in the financial markets, mainly through deregulation and internationalization. Together with the increased competition companies has encountered difficulties in selling their goods or services, and thus also, in keeping their market share. As a result, a phrase that has been commonly used in recent times and its appropriate for all business activities is to keep the ‘customer in focus’. This represents a change in the way business leaders think about the company’s relationship with the market. It can be said to represent a change from a product oriented to a market oriented way of thinking (Jaensson 1997) The process of deregulation and technological development have altered the traditional barriers between different institutional groups, and there has been a redefinition of the market place. We tend to speak of financial services as a whole rather than banking or insurance specifically. This represents a threat to the same time an opportunity to financial providers, as it opens up the possibility of offering customers a more integrated range of financial services. Many financial institutions have expended in to new, but still closely related market and the number and variety of competitors has increased. The search for competitive advantage has increasingly tended to focus on the process of service delivery rather than the service itself, which consequently has turned attention to the concept of relationship marketing,(Ennew, Wright & Thwaites 1993). The worldwide flux in the financial market has affected the conditions for operations in the market as well and insurance firms have experienced a radical change during the last decade. Currency control was abolished in 1989, the law on insurance breakage was introduced and passed in 1990, the borders between insurance and banking were demolished in 1991 and both these lines of business could be pursued within the same corporate group. According to the EES –treaty of1992, the possibilities for running a financial business in other European countries were enlarged and in 1995 a new law on competition was introduced in line with the adaptation to EC regulations.
The Concept of Services

The concept of services is complicated, as a service may encompass many features ranging from a personal service involving a complex relationship to a service more like a commodity with a tangible product, and thus more easily comprehensible. An example of the latter is car rental, where the customer drives the car—a very tangible and comprehensible result of the service offered—whereas in the case of the former, using insurance services as an example, the customer pays for something highly impalpable, namely risk reduction. The insurance company bears the risk, which the customer consumes all the time. Customers however do not really comprehend the total context of the service until a loss is experienced. Different levels personal interaction are also exemplified in both cases. “A service is an activity or series of activities of more or less intangible nature that normally, but not necessarily, take (sic) place in interactions between the customer and service employee and or physical resources or goods and or systems of service provider, which are provided as solutions to customer problems” (Gronroo, 1990 a p.27). A service is individually perceived on the basis of rational assumptions by customers and providers, and often described by abstract expressions such as trust, feeling, security and experience (Gronroos, 1990a). This exemplifies one of the characteristics suggested to distinguish services from goods, namely intangibility. The others are inseparability, heterogeneity, perishability, and ownership (Cowell 1984). Intangibility denotes the fact that services are often not possible to feel, taste, see, hear or smell before they are purchased they are impalpable. Intangibility is closely related to the concept of comprehensibility, since a service is not easily defined, formulated or grasped mentally. (Donnelly et al 1985) Moreover services can often not be separated from the provider as they are, at least to some extent, produced and consumed simultaneously and thus the customer participates in the production of services. Services are often characterized as heterogeneous, as it is difficult to achieve standardization of output; services are perishable and can not be stored; and a customer always has access to or the use of a service, but not ownership of the activity. (Cowell 1984)

Relationship Marketing

The term ‘relationship marketing’ has become popular during the 1990, both as fad word and as a concept. The traditional concept of marketing is often described as referring to operations whether the market is manipulated through a marketing programme involving the 4Ps of the marketing mix model; product, price, place and promotion. In the late 1970s a new concept evolved in northern Europe, elaborated simultaneously by researchers working in the field of industrial marketing who developed the industrial network theory (e.g Hakan hakansson and Jan Johanson) and in service marketing (the Nordic school of services e.g. Chirstian Gronroos and evert Gummesson) The new approach stressed relationship between seller and customer and since the publication article by Professor Leonard L Berry in 1983 (berry 1983) the most widely used term for this perspective has been relationship marketing. The new perspective was created as a counter reaction to the view of transaction marketing in mass market, symbolized by the 4ps. Establishing, strengthening, and developing of relationship with customers was in focus, in particular primarily long term and enduring relationship.

**Transactional focus**
- Orientation to single sales
- Discontinuous customer contact
- Focus on product features
- Short time scale
- Little emphasis on customer service
- Limited commitment to meeting customer expectations
- Quality is the concern of production staff

(Source: Payne et al., 1995, p viii)

**Relationship focus**
- Orientation to customer retention
- Continuous customer contact
- Focus on customer value
- Long time scale
- High customer service emphasis
- High commitment to meeting customer expectations
- Quality is the concern of all staff

*Fig: The Shift to relationship Marketing*
Thinking the marketing in terms of having customers, not only acquiring customers is crucial for service firms. Berry defined relationship marketing as attracting, maintaining, enhancing and commercializing customers relationship, so that the objectives of the parties involved are met (Berry, 1983). This is achieved by a mutual exchange and fulfillment of promises. Establishing a relationship involves making promises, maintaining it is based on fulfillment of the promises made, and enhancing it entails making a new set of promises (Gronroos, 1990b). Relationship marketing, based on the fact that provider and customer co-operation to a certain extent in a joint process where production and consumption occur simultaneously, implies mutual co-operation between the parties instead of conflict and competition. This does not mean, however, that these variables are eliminated, only that they are made more explicit easy to control (Gronroos, 1996). A good relationship implies at least two fundamental conditions. First, it should be mutually rewarding to the provider and the customer (i.e. they should both benefit from the connection) and second, it involves some kind of mutual commitment over time. In establishing and maintaining customer relations, the seller gives a set of promises that are connected with goods, services, or other benefits. In exchange, the buyer gives his/her promises and these promises must be kept on both sides on order to ensure profitable long time business operations (Gronroos 1990a).

**Relationship Marketing in an insurance Market**

A relationship marketing approach allows the insurance marketer to offer a product in response to need triggered by the customer and based on experience and information gathered over time. Sales and profitability can be dramatically increased because the more a marketer knows about the customer the more effectively the customer can be approached with appropriate targeted products (Harrison, 1993). One of the major themes in relationship marketing, as well as a key to profitability is to develop long time relationship with customers. This involves the ability to retain customers as in turn, depend on agent possessing the ‘right’ characteristics. What is ‘right’ varies depending on whether the customer is an individual or a company. In insurance language these two types of customers may be called personal lines policy holders and commercial lines policyholders respectively.

A recent survey among insurance customers in America was undertaken by Independent Insurance Agents of America (IIAA). They reported that personal lines customer defined retention as depend on the provider’s professionalism, value, accuracy and helpfulness, where as (small) commercial lines customer claimed that the retention was dependent on quick service, value, and an understanding of the company’s need (Sonhine-Pasher, 1996). The same study showed that of the 1500 personal lines policy holder surveyed, 52% were interested in forming long term relationship with their relationship with their agent than finding the lowest price, compared with the so called ‘automatic pilot’ buyers representing 26%, who wanted insurance matters handled without agent contact. Considering the 800 commercial lines customers in survey, 65% regarded property and casualty insurance as a good investment in the long term, whereas 35% less likely to agreed on that, many of them having switched agent in the three years preceding the survey.

**Customer Loyalty and Profitability**

Customer loyalty may be considered a key of profitability, but it is reasonable to state that the creation of this sense of loyalty is not something that happens overnight. As an example of this, there is a research showing that in certain private insurance business it may take as long as ten years before the individual customer gives the provider any profit from the relationship (Gummesson 1996). The ‘loyalty management guru’ Frederic Reichheld proposed accordingly that profit is not the primary goal. Although indispensable, profit is the consequence of value creation, which together with loyalty, are the cornerstones of long term relationship (Rechheld 1996). The mission ranked high level of priority in a loyalty-based effort is to make sure that the company finds and keeps the ‘right’
customers. The right customers are mainly those to whom the best value possible can be delivered by the company over a long term period. The effects of marketing alone are not able to create sustainable loyalty. Customers loyal because of the value they receive, not because of the marketing program. Hence the role of the marketing department is “to ensure that the effort of each department are coordinated in to effective delivery of a unique value proposition, which will provide superior value thus, earn customer loyalty” (Reichheld 1995 p.238)

An enhanced level of customer loyalty includes the benefits of increased revenue from repeat sales and referral and increased employee job satisfaction. The Swedish researcher in relationship marketing, Dr. Evert Gummesson introduced the term ‘return on relationship’ defined as “ the effect on long term net financial outcome caused by the establishment and maintenance of a company’s network of relationship” (Gummesson, 1997, P 205). The measures not only relates to consumer-suppliers relationship, but also to competitor relationship.

Relationship Marketing- A Paradigm Shift

The concept of relationship marketing is sometimes questioned ; it is a fad or really a change in business strategies of companies. According to Gummesson (1997), there is a paradigm shift going on, although this take place more in a real world of marketing than in the world of theories. In this regard Gummesson differentiates his theories from Payne el al.(1995), Gronroos (1996), and Sheth & Parvatiyar(1995), who all realized that relationship marketing was here to stay, but considered it a revived paradigm and a refocusing of traditional marketing. An American research article by Eugene M Johnson(1997) agree that relationship marketing is more than a passing fad and maintains that it is a sound business strategy, which puts the focus of companies in general on customer satisfaction and retention rather than on creating tractions. The customer becomes a partner who will help the supplier to achieve goals. Quoting Regis McKenna, one of the major proponents of the relationship marketing approach, Johnson noted that “marketing is everything” the company must adapt its goal or services to the unique needs of its customers. Customers targeting and individualization a key variable of marketing strategy. In business to business marketing, salespeople are often the ones responsible for developing and maintaining relationship with customers and are frequently called key account managers or relationship managers.

Johnson pointed out the major requirement for implementing a relationship marketing strategy, namely, that the company must build and maintain a customer data base appropriate for marketing purposes. The gathered information can be used to keep customers informed about a product, stimulate repeat sales, and thus builds customer loyalty. It is also good for planning advertising and targeting the right audiences, and to develop new product and make sure that the appropriate buyers know about them. Obviously, a small company may have an advantage over a large firm because of its smaller customer base and more person knowledge of its customers, but the key is to remember that the challenge is to built relationship, not just to try to make a one-time sale(Johnson,1997).

The Concept of Insurance Services

According to the Encyclopedia Britannica , insurance is ‘a contract for reducing losses from accident incurred by an individual partly through a distribution of risk of such loss among number of parties’. The definition goes on to say, ‘In return for a specified consideration, the insurer undertakes to pay the insured or his beneficiary some specified amount in the event that the insurer suffers loss through the occurrence of contingent event covered by the insurance contract /policy. By pooling both the financial contributions and the insurance risks of a large number of policy holders, the insurer is typically able to absorb losses incurred over my given period much more easily than would the uninsured individual” (Encyclopadeia Britannica, Micropaedia, 1987, p 335)
A way to consider the different kinds of insurance is to view them in terms of objects insurance contingencies insured against payment methods of premiums and possible benefits. Objects insured can be of two kinds; either property or person including the object “corporate person”. The term “property” encompasses most tangible form of property, ranging from personal effects via real estate and bank deposits, to ship and good in transit. The person insured includes for example aspects of life and health, ability to work, and retirement income. Contingencies insured against may include almost anything, but a few examples are natural accidents, such as fire and earthquakes, theft, professional malpractice, personal accidents and even mismanagement of a cooperation. The manner of payment in both directions may very considerably depending on the type of policy. (Encyclopedia Britannica, Micropaedia 1997)

The insurance product, albeit a service, has many different forms. Following the classification above we start with property insurance. The main types of contract with this field are homeowner’s and commercial, often subdivided into insuring agreements, identification of covered property, conditions, stipulations and exclusions. Homeowner’s insurance covers as the name indicates, individual or non-business property. Commercial or business property insurance, follows a similar pattern to that of individual property, although in same policies it is more common to cover many kinds of property. In English this is often referred as “building and personal property coverage” (BPP). In such a policy the business owner may cover the building, fixture, machinery, equipment and the personal property of those for whom the owner is responsible. The policy may also have extensions covering for example, valuable records. Casualty insurance provides the policy holder with cover against losses to persons property, including classes such as liability, theft, aviation and workers compensation (Encyclopedia Britannica, Macropaedia 1987). Casualty insurance is often put into the same insurance category as property insurance, and in insurance jargon they are referred to as PC short for property/casualty.

The Customer’s Behavior and Relationship

The relationship between the financial institution and the customers become very complex. This is due to the fact that financial service customers seldom buy just one product, but rather purchase a range of products often in the form of a package. The service provider has to establish priorities concerning how much involvement should be invested in a relationship, taking in to consideration both the types of services and types of customer concerned. The more complex the financial services provided, the higher the long term commitment, the larger sources and the increased risk required (Harrison 1994).

In Order to understand the corporate customer’s behavior when discussing an offer with the company representatives it is among other thing, valuable to consider tax legislation and its effect on insurance decisions. Loss and damage of a company’s inventories and/or stock are considered as operational losses and thus tax deductible. The question is whether to choose a high retention in favour of a lower premium or vice versa. The opposite conditions exist however concerning real estate. A loss of a building is considered a loss of capital and thus is not tax deductible. In this case it is a tax related advantage to sigh on insurance with as low retention as possible, since paid premium as looked upon as operating costs and thus deductible variable costs (Bergendahl, Hartman & Lindblom, 1990). The relationship manager in insurance firm must be equipped with enough experience and knowledge to be able to manage the complexity and intangibility of the insurance services provided, so that there is no doubt of customer’s level of comprehension. All in all it is a matter of the insurance agent’s ability to inform the customer of elements of the ptomersarticular insurance.
According to the study of (Arneving & demelid,1997), there is a mutual distrust between insurance company and their customers. From the insurer view it is based on the customers propensity to try to gain from fraudulent behavior, but was more categorically expressed by the customers towards the insurance firm. The claim settlement is but one of four area where relationship often fail due to imperfectly managed interaction. At the claim settlement, customers almost always perceive themselves to have been encountered with suspicious by the agent, as there is a possibility of customers often through drastically lower premium .how are these really to be interpreted? Third is the concept of complexity and difficulty in understanding the service provided, which was discussed earlier. The final area concern the history of the strictly institutionalization and regulated insurance business, entailing badly delivered services (Arneving & Demelid, 1997).

As a consequence, a large responsibility is placed on the shoulders of key account managers of insurance business, as in banking, the situation seems to be the same , namely that the relationship manager of the financial service provider is of vital personal importance to the customer and he/she in many cases , the reason for maintaining the relationship with the bank/ insurance company (cf Danielsen & Gidhagen, 1995; Sonshine Pasher, 1996b). The concept of trust in relationship is very much related to the ability to grasp the services provided, and there are ways of enhancing the relationship. The relationship manager may either put efforts into increasing the customers level of comprehension and then work towards the transformation of mistrust into trust of alternatively start building mutual confidence in the relationship, and at a suitable point incorporate the effort to make the service more tangible to the customer. Seen from any angle the key account manager, the insurance manager, the insurance agent, is the hub in every relationship. Information management is not only about gathering market information about customer but also about the ability to transfer product information in a comprehensible manner to do the customers. In that way at least some of the mutually perceived mistrust in insurance relationship would disappear.

Conclusion

One of the subject that was mentioned initially was the nature of the nature of the influence of insurance marketing on relationship management. Based on the research presented above, the conclusions could be developed into the following conceptual statements;

1- Insurance services are inherently intangible by nature.
2- Insurance services are characterized by varying levels of complexity.
3- The customer’s level of comprehension is dependent on the insurance manager’s experience in knowledge of level of and skill in, managing the complexity and intangibility of the service provided.
4- Insurance relationship may involved aspects of mutual distrust.
5- Good strategies in relationship management are required to enhance customer comprehensibility and to lower customer mistrust in an insurance relationship.
6- The need for efficient relationship management is increasing in insurance marketing.
7- The concept of relationship marketing and service management are interrelated.
8- Customer retention and customer loyalty are viewed as key variables for managing increased competition in general as well as in insurance business.

These are relevant indications that tactically applied relationship marketing strategies provided a viable solution to insurance companies in competitive distress. Managed in the right way, the adoption of the relationship management theories treated in this report have every chance of being a key factor contributing to success, and even to survival in the years to come. The competition in the insurance markets will most certainly continue to intensify; banks insurance companies and other financial
institutions will keep on merging, cross selling services and erasing the borders between the respective fields of financial services. The financial market of the coming years may be markets where there are no longer anything called ‘insurance companies’ or ‘banks’ but only more widely encompassing financial services organizations. This development gives cause for launching every action possible to retain and deepen profitable customer relationship in order to survive the battle for market share.

References

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