Quality In Insurance Services: Key to Winning Customer Loyalty

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One striking lesson of some recent analyses in marketing is that it costs five times more to recruit a new customer than to retain one.[1] A long-standing client is a blessing to any business, and no one realizes this more than insurance agents. What makes clients stay with an insurance agency? And, what kinds of clients are more prone to switching insurance providers? We answer these questions in this article, based on a national survey of consumers. In this survey, we found customer perceptions of service quality to be strongly related inversely to customers' self-reported propensity to switch their insurance provider. Our survey also found that for good customer retention, the quality of contact mattered even more than did the quality of the insurance policy.

A Consumer Survey

The survey was conducted on a national mail panel, in the United States as part of an omnibus survey. Questions were included about customer satisfaction with three types of insurance-- automobile, home, and life.

In the survey, we asked two questions relating to customers' perceptions of quality: (i) rating of the quality of service the companies provide, and (ii) the rating of the way the companies provide the service-- each rated on 0-10 scale where 10 means excellent. These two quality ratings will henceforth be referred to as the "what" quality, and the "how" quality, respectively. A third question was also asked: "Would you switch companies to get better product and services?"

We were pleasantly surprised with what we found. Consumers gave high marks to all three insurance industries-- automobile, home, and life insurance. Few consumers rated any of the services poor: scores of '5' or below were given by a small number of consumers--ranging from 12% to 18%. In all cases, the median (the score that divides the sample in two halves) was 8.0. Accordingly, a little more than 50% of the respondents gave a rating of '9' or '10'. Furthermore, a perfect score of 10 was assigned by as many as one-third of the respondents (33.7 to 37%). These perceived quality ratings compare favorably with those we found for other financial services (e.g., banking) and also for other non-financial professional services (e.g., attorney, realtor, etc.)

When asked if they would switch companies to receive better products and services, the reported switching proneness rate (measured by the foregoing question) was 31.2 percent for car insurance, 28.3 percent for home insurance, and 25.4 percent for life insurance. This percentage rate compares favorably with the switching propensity we found for the financial services (average 32.4%) as well as for other professional services (average 39.5%).

Note that the switching proneness was highest for car insurance, and lowest for life insurance. This is because it is easier to switch car insurance companies at the semiannual policy renewal dates. At the other extreme, life insurance presents considerable "switching costs" due to accumulated premiums and due to the customer inconvenience of extensive paper work (e.g., medical examination) needed for policy switching.

We found switching propensity to be strongly related inversely to the perception of quality. This can be seen in Exhibit 1. Here, quality ratings are average of the two quality questions-- the "what" quality and the "how" quality. This exhibit shows, that as perceived quality ratings rise, switching proneness rates decline sharply. Illustratively, among those who rated the quality in the 0-5 range, as many as 80%, 73%, and 67% respondents were willing to switch companies for their car, home, and life insurance, respectively. These percentages fell down, respectively, to 6%, 6.8% and 4.3% among those who rated their present companies a perfect '10'. Perceived quality ratings signify customer satisfaction with services. Thus, the more satisfied the customers are, the more loyal they are likely to be.

Quality of Contact Matters

We wanted to examine the relative power of the "what" quality and "how" quality in retaining customers. "What quality" refers to the quality of insurance policies offered; "how" quality refers to the quality of the "way the service was provided,"-- in other words, it refers to the quality of "the contact." For service industries, we have found that customer satisfaction with the quality of contact is generally more important than the quality of the "service-product" per se. We wanted to know if this was the case with insurance customers as well, and our data showed that it was.

For this analysis, we divided the entire sample into four quadrants, based on a quality perception cut-off level of '8' (since '8' was the median score). Consumers who rated both the "what" and the "how" aspects as less than or equal to '8' were placed in the first quadrant, and those above '8' on both the dimensions were placed in quadrant four. Quadrants '2' and '3' represent customers who rated one aspect of the service but not both above '8'. Next, for each quadrant, we computed the percentage of those wanting to switch. Exhibit 1 shows these results. When both the dimensions of quality are scored low (below 8), the switching propensity is high-- ranging from 43 to 52% for auto, home, & life insurance. But improving <u>both</u> the dimensions by one or two points each would result in a decline of switching propensity by nearly 80% (e.g., from 52.4% to 9.1% for car insurance).

An even more interesting finding is this. Once the median level of '8' is achieved on both dimensions, the next improvement pays off slightly better if the improvement is in the "how" rather than in the "what" aspect of service. For car insurance, for example, high "what"/low "how" will leave the switching propensity rate to 36.7%. In comparison, improving the "how" while still keeping "what" at the '8' or less level would reduce switching rate to 31.1%. This "elasticity of satisfaction" is even more pronounced for home and life insurance agencies. For home insurance, the switching rate of 47.3% in quadrant 1 goes down by 15% (i.e., 15% of 47.3% to 39.5%) with improvement in the "what" quality; in contrast, it is nearly halved (to 25.5%) with improvement in the "how" quality. Similarly, for life insurance, the switching rate of 43.6% is reduced by two-fifths (to 25%) with improvement in the "how" quality, in contrast to a reduction by only one-fifth (to 35.3%) with improvement in the "what quality."

<u>Demographics of Loyal Customers</u>

People likely to switch differed form those likely to not switch, in terms of their demographic characteristics. While differences between the two genders were marginal, other demographic differences were pronounced. Females were only marginally more likely to stay loyal than were males-- their index is 101 compared to 98 or 99 for males. See Exhibit 3. Although this difference is marginal, this finding does have an implication: agents should try to include female heads of the household in their insurance discussions.

In terms of race, generally Blacks are more loyal than Whites, except that for car insurance, the pattern is reversed. This is perhaps because obtaining car insurance represents a special challenge to Blacks due to their generally higher risk rating (e.g., higher risk neighborhoods, lack of protected parking facilities, etc.). Asian-Americans are the least loyal groups, perhaps both because they are considerably more price sensitive as well as more educated and therefore demanding customers.

Age differences were quite pronounced. Young consumers were substantially less loyal than were older consumers. For example, in the 50 or lower age groups the index ranged from 87 to 94; in contrast, the index for 50+ age group ranged from 104 to 127. The most loyal group is the 65+ age group. See Exhibit 3.

Income was positively related to switching, although the differences were not great. Lower income groups with an annual income of $30,000 or less were the most loyal, and those with income above $60,000 were the least loyal consumers. Likewise, less educated consumers (high school or less) were the most loyal consumers, compared to those with some college education.

Finally, employment status had strong effect on loyalty. Retired consumers were most likely to be loyal-- the index ranges from 118 to 123. In contrast, employed consumers were likely to be least loyal, with partial or no employment consumers in the middle.

<u>Managerial Implications</u>

It helps to know what kind of customers are likely to be loyal. For insurance agencies, these are females, Blacks, Married couples, Senior Citizens (especially, the 65+ age group), and lower income and relatively less educated consumers. It helps to seek them out. They are presumably easier to please, and less likely to be looking to switch insurance companies. This does not mean however, that agents may lax on the service they provide to these customers. It does mean that providing them good service should be relatively easy.

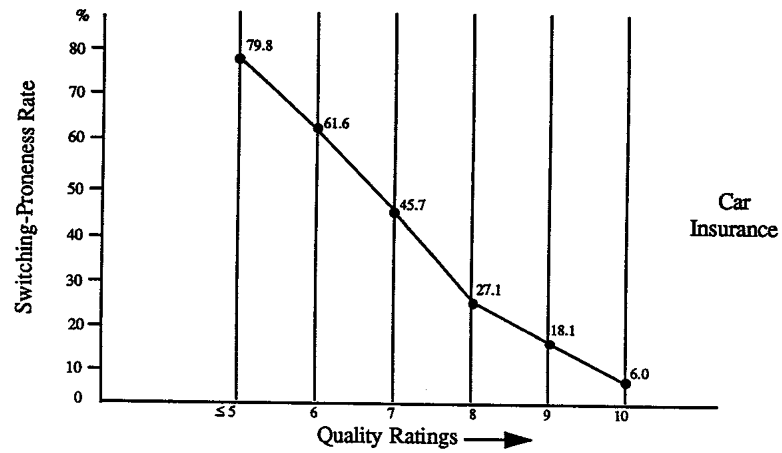
On the other hand, those more prone to switching require special attention. Insurance agents should be specially on their guard to not let service slide when dealing with these customers. Since agents deal with clients one-on-one, it is possible to allocate attention, time, and relationship building efforts selectively on those clients who are more susceptible to competitor's pitch. Our survey data shows that Asian-Americans particularly are prone to switching. Although their absolute numbers are small, agents who serve them need to become more service oriented. Likewise, younger clients, upper income, and upper education and fully employed clients are more prone to switch. Since these are more well-off than the rest of the population, perhaps their reason is better product/service rather than price comparison. This is all the more reason that agents serving customers with this profile (young, educated, employed) need to be less concerned with price and be more concerned with improving service quality.

To satisfy and retain clients, your service quality has to be in the top two boxes (i.e., '9' or '10' on a 0-10 scale). This is where the loyalty rates of 80% or higher are seen. To our pleasant surprise, more than half of all consumers rate their insurance agencies in this high range. Insurance agents who serve the other half (those consumers who give their agencies lower ratings) may want to catch up. This can be found out by individual agencies with a survey of their own clients, with questions similar to those we asked plus a few additional diagnostics questions.

Good service quality pays. Loyalty and service quality are strongly correlated. Moreover, both the "what" service and the "how" service matter. That means, what insurance options are offered, what liability exclusions are imposed or what riders are made available, or what "bonus" coverage is included matters in as much as these drive the perceptions of the "what" quality. But even more importantly, the quality of interpersonal contact matters. Our data is unequivocal in showing the supreme power of the "how" quality. The "how" implies paying attention to the interaction with the client. Make the client feel cared for, and he or she is likely to reward you with his/her loyalty and continued patronage. Insurance agents are in a service business, and our data show that servicing the client well does indeed bring more business.

Exhibit 1

<u>Switching Proneness by Quality</u>



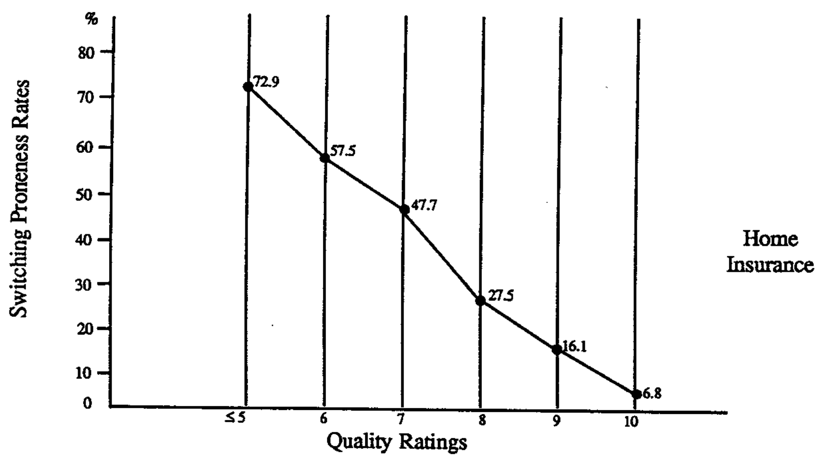
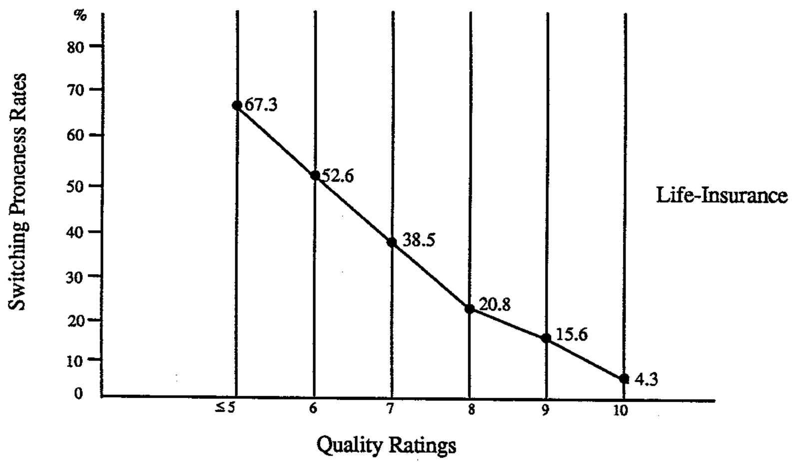


Exhibit 1 (Cont'd.)



Note: Quality Ratings are average of "What" Quality and "How" Quality, each measured on 0-10 scale.

Switching Proneness is measured as a "yes"/"no" response to the question, "Would you switch companies to get better products or services?"

Exhibit 2
The Relative Role of "What" Quality & "How" Quality in Retaining Customers

Car Insurance

"How" Quality ↑ / "What" Quality →	Low	High
High	31.1 ③	9.1 ④
Low	52.4* ①	36.7 ②

Home Insurance

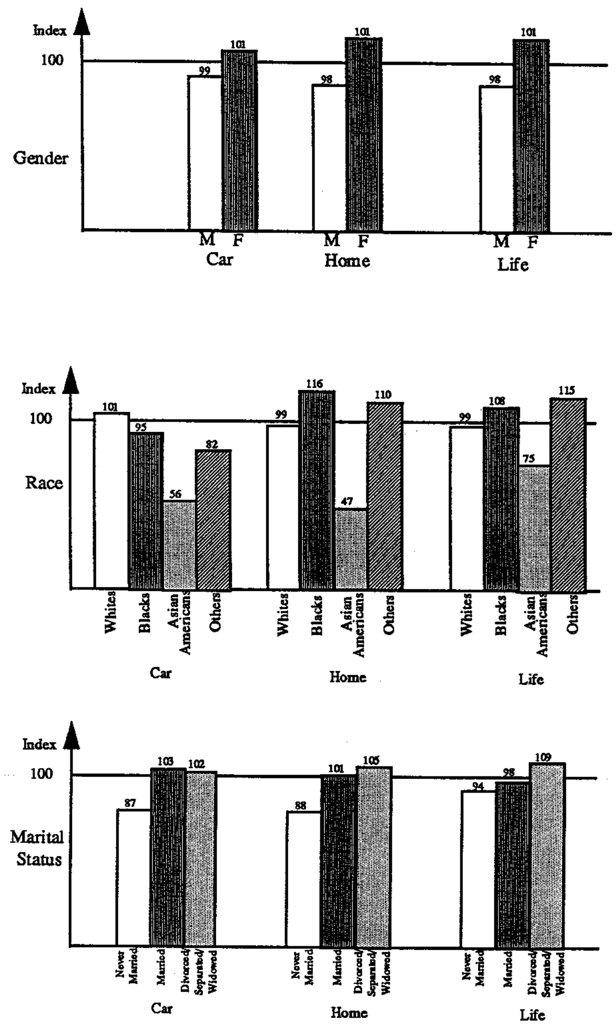
"How" Quality ↑ / "What" Quality →	Low	High
High	25.5 ③	9.9 ④
Low	47.3 ①	39.5 ②

Life Insurance

"How" Quality ↑ / "What" Quality →	Low	High
High	25.0 ③	7.3 ④
Low	43.6 ①	35.3 ②

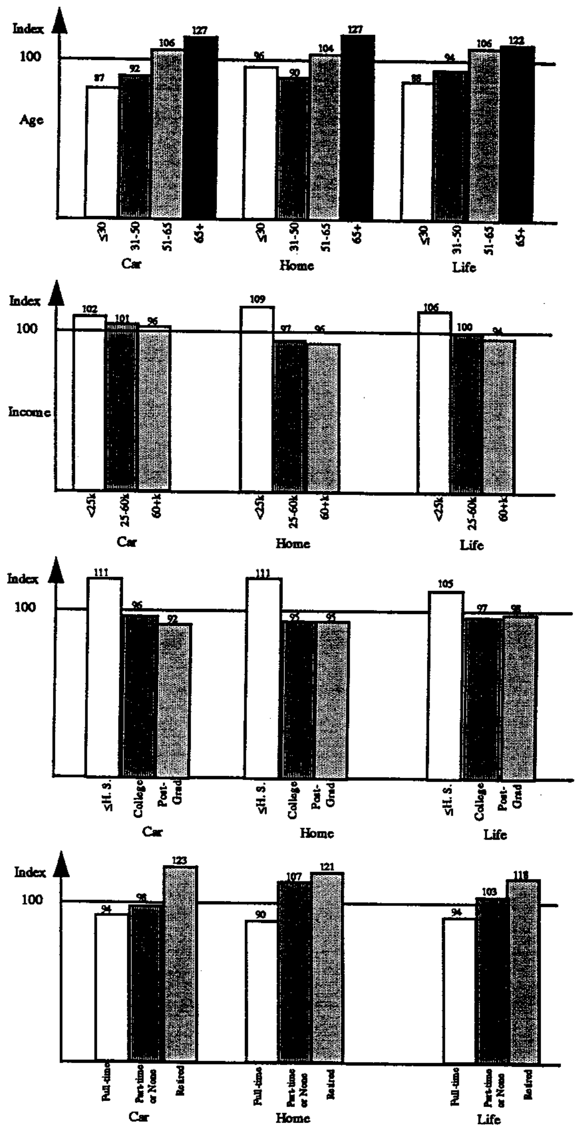
Note: On both "What" & "How" Quality, ratings of 0-8 were grouped into "Low" and ratings of 9-10 were grouped into "High" categories. *Read: Of those who rated both "What" and "How" Quality in the 0-8 range, 52.4% showed willingness to switch. Similarly, of those who rated both "What" & "How" Quality, above 8, 9.1% showed willingness to switch.

Exhibit 3
Demographics of Loyal Customers



Note: Index is computed as a percentage of the sample's average. For example, for Car Insurance, the average loyalty for the sample was 68.8. For respondents 30 years or younger, loyalty was 59.8. Therefore, this group's Loyalty Index is (59.8 / 68.8) x 100 = 87.

Exhibit 3 Cont'd.



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1. Richard C. Whitley, The Customer Driven Company, New York, NY: Addison-Wesley Publishing Company, 1991; Frederick F. Reichheld and W. Earl Sasser Jr., "Zero Defections: Quality Comes to Services," Harvard Business Review, September-October 1990, pp. 105-111.