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- Bowersox, Donald J., Closs, David J., (1996), "Logistical Management." Tata McGraw, Hill, New Delhi.
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A STUDY TOWARDS CUSTOMER LOYALTY IN LIFE INSURANCE

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ABSTRACT

Building customer loyalty is important as it often lead to more business because; loyal customers tend to make more than a single transaction. Loyal customers will spend more as they already trust the brand. Customer loyalty helps business to improve brand image. As brand has already won trust of loyal customers, they are more likely to share positive experience than a new customer. This eventually helps a brand to retain more customers and improve customer loyalty as well as brand loyalty. As life insurance is a complex business and contract for long term, the behavior of customer becomes critical for all insurers to understand. In this orientation, the study emphasizes the ways toward building and strengthening customer loyalty in life insurance.

KEYWORDS

customer loyalty, insurance, services, service quality, agents, employees.

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INTRODUCTION

Customer loyalty is the result of consistently positive emotional experience, physical attribute-based satisfaction and perceived value of experience, which includes the product or services. Customer loyalty can be said to have occurred if people choose to use a particular shop or buy one particular product, rather than use other shops or buy products made by other companies. Customers exhibit customer loyalty when they consistently purchase a certain product or brand, purchase insurance policy from same company or endorse to others over an extended period of time. Likelihood of previous customers to continue to buy from a specific organization is their loyalty. Great attention is given to marketing and customer service to retain current customers by increasing their customer loyalty. Organizations employ loyalty programs, which reward customers for repeat business. Customer loyalty is a measure of how likely customers are to do repeat business with same company. Different industries have various ways of measuring loyalty, but the most basic way is to look at the number of purchases over a customer's lifetime in company's database. Repeat buyers are most valuable customers. Though they may not be big purchasers, it is likely that over time, the revenue from them will top revenue from big one-time buyers. In fact only 5% improvement in customer retention rates yields between 25% to 100% increase in profits across industries. Happy customers spend more money, more often. There are tons of other benefits to having a loyal customers as well- free advertising by word-of-mouth, positive online reviews, free endorsement. One must look for a reciprocal customer loyalty: a premium relationship benefitting both the brand and the customer.

The relationship between the insurer and customer cannot be made permanent forever, neither by the seller nor by the customer. Either of them may become the reason for their break-up. Moreover, such a situation differs from the nature of business of the seller. It depends as to whether it is a market of products or service or as to whether it is a market of tangible or intangible products or services. We will narrow down our issue of the scope for customer loyalty to an intangible service product – the life insurance service market.

OBJECTIVES

The present study focused on the following objective.
1. To know the type and nature of customers in life insurance market.
2. To assess the significance of customer loyalty and ways to build, and strengthen customer loyalty for a brand, specifically in life insurance.

RESEARCH METHODOLOGY

Studying of literature on life insurance market, structure of life insurance distribution system, service standards and quality, relationship of service quality and customer satisfaction, customer loyalty to various brands, customer loyalty in life insurance, customer relationship management was the first step. Then study of nature of business of the seller; product or service, tangible or intangible was given the priority. The nature, role and significance of external customer like policy-holder, internal customer like employees and dual customers like agents were detailed. The reasons for customer dissatisfaction were analyzed. Various ways to build, grow and strengthen customer loyalty to different brand and life insurance sector operating in the market for company's survival, branding and growth are clearly discussed.

LIFE INSURANCE SERVICE

The nature of life insurance business differs in many ways- even among its genre of the financial service product business. The life insurance sellers sell comparatively longer-term service products. The customers have to wait longer periods of time to reap the benefits of his purchase. Life insurers sell words or promises to be fulfilled at very distant future points of time. Whereas many of the competitors offer mostly short-term financial service product garbed in more tangible promises than the long term insurance promises. A financial service product normally gives rise to the needs either for the customer or the service seller to come into mutual contracts for favor of some service or for any official or administrative purpose. Such times of needs for contacts between the seller and the customer-especially in insurance business – are called the service points during the term of the service product. In practice, these service points are of more importance in life insurance transactions than the point of sales of the transactions or the points of fulfilling the promise made under the transactions. It is so because of the tangible evidence that a customer can gain at these service points about the seller's credibility and the veracity of his promise. A prudent insurer should take advantage of these service points to prove his credibility to his customers. Another aspect is that as the term of life insurance service product is usually very long, it is both important and difficult to hold the customer loyalty to the seller over so a long a term of the service.

CUSTOMER LOYALTY

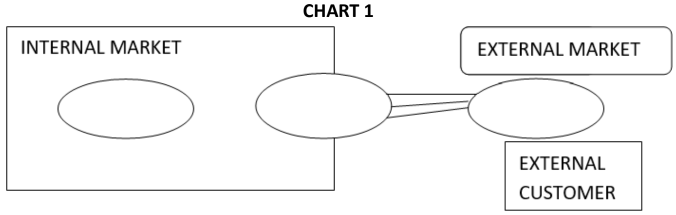
Customer loyalty is viewed as the strength of the relationship between an individual's relative attitude toward an entity (brand/service/store/vendor) and repeat patronage behavior. The relationship is seen as mediated by social norms and situational factors. Cognitive, affective antecedents of relative attitude are identified as contributing to loyalty, along with motivational, perceptual and behavioral consequences. Implications for research and for the management of loyalty are derived. (Dick and Basu, 1994). So according to researchers, there are two distinct indicators for a customer's loyalty; relative attitude and patronage behavior. Relative attitude of a customer toward a product or service is the attitudinal preference of the customer to that particular product or service in relation to his preferences to similar other products and services available to him in the market. Patronage behavior of a customer toward a product or service is his inclination and/ or likelihood of patronizing that particular product or service by repeat purchases or patronizing it to others by word of mouth. In other words, a customer's loyalty to a product or service should reflect in his repeat purchases or word of mouth to others. This can happen only when the customer is totally pleased with the product or service which he purchased from an insurer and that too throughout its (the product or service) 'life'. It becomes more critical in the case of a service product – like a life insurance product – because the insurer has to keep his customer 'totally pleased' throughout the contact period stretching over some decades. Fortunately, an insurer gets several nuances – service points or contact points – created by either the customer or that can be created by him (the insurer) to please his customer fairly totally.

Normally a customer makes a contact with the seller/ insurer whenever he has a problem or need during the term of the service product. Any such 'problem a customer has with a service can be called "service failure". On such occasions, the customer expects that "all actions are taken by a service provider to try to resolve a customer's problem". The result of all such actions by the service provider is called the "service recovery". Further, "when customers encounter a service failure, they can either not complain, or complain and give the service provider an opportunity to rectify the problem. If they do not complain, they may remain with the provider, despite their dissatisfaction, or exit. If they do complain, they may also choose to stay or leave, and this is influenced by how the situation is handled by the service provider (i.e. the service recovery). Service recovery includes all actions taken by a service provider to try to resolve a customer's problem". Or rather, before a customer realizes that he has a "service failure", an insurance service provider must be proactive and be able to reach his customer and try to make it a point to create occasions and times to come into contact with his customers and maintain the required nuances of credibility. These activities will also lessen the burden of the long-term nature of his service product. Otherwise, any deficiency in the contact or a service failure may dissatisfy the customer and turn off the customer permanently or temporarily. Both ways, his (the customer's) faith in the service provider and his loyalty to the service provider get jeopardized and questionable.

Traditionally, life insurance business is sought by the provider through certain links called – agents – who are more known to the customers. This system of selling life insurance has developed in the market for several reasons and one reason being that the client is known more to the agent rather than to the insurer. The process, in simple terms, is that the agent appointed by the insurer to sell life insurance product on his behalf – the actual seller of the insurance product – approaches the customer, sells the product and hands over the proposal papers of the customer for further processing and issuance of the insurance of the insurance contract in the shape of a "policy document". This insurance product is further "serviced" by the employees of the insurer as and when required by the customer or otherwise – throughout the term of the insurance service product.

Thus, there are two separate sets of people who support the total business activities of a life insurer. These two sets of people work in the processes of the life insurer either severally or jointly – as supplementary or complementary work force. In other words, sales and service are done by two sets of appointed persons in the life insurance market domain.

CHART 1



There are two distinct market areas – the external market and the internal market, and the service provider has to necessarily deal effectively with both the external marketing and the internal marketing. The two consequential types of customers are the internal customers – the employees – and the external customers – the buyers of the service products (the policyholders).

Employees are visualized as customers. "A customer is the recipient of a good, service, product, or idea, obtained from a seller, vendor, or supplier for a monetary or other valuable consideration". In the light of above definition, we may treat an employee as a customer to his employer if the former is considered as having purchased his livelihood – job – by selling his labor, skill and time to his employer. Berry (1981) described the same concept as: " viewing employees as internal customers, viewing jobs as internal product that satisfy the needs and wants of these internal customers while addressing the objectives of the organization". Normally employees enter into a service contracts and promise to perform their primary duty to take care of and 'serve' the customers of his employer – especially at the times of service failures and offer timely service recoveries. There are several ways in which the customers react to service failures. Some complain and wait for the reaction from the seller. Some complain and do not wait but leave. Some neither complain nor wait and just leave.

So service recovery actions on all situations become extremely crucial to the service providers to keep the customers with them and not to decide, "to leave". Many times, customers – especially service products customers – resent the attitudes of their sellers more on personal and psychological bearings. If companies know why customers leave, it's much easier to win them back. We can find examples of such bearings below. Ted Barrows, a sales consultant and Trainer, gives the reason for which the customer chooses to leave their service providers:

1. They feel you are taking them for granted. You didn't work at making them feel "special".
2. They get the idea that the only time you show interest in them is when you want an order.
3. They feel you come to their door only when you have something you want them to buy.
4. They feel you spend too much time and lavish too much attention on prospects.
5. They feel you are only interested in them when they are placing orders.
6. They feel you do a poor job communicating with them.
7. They feel you are only interested in "big accounts".
8. They are pleased with the way you treated them at the beginning, but they noticed the difference once they became customers.
9. They are dissatisfied with the product, delivery, installation, service or price.
10. There are changes within your company the customer doesn't like.

It is interesting to notice that many of the above reasons for a customer to resent and feel "omitted" by the insurance service provider are true when the employees and sales force of the service provider including the agents are seen as "omitting" their customers. Getting feedback from defectors is important because of the unique insights it provides. The former customers know the areas in which company need to improve to improve to get their business back. So whenever one loses a customer, following questions are to be asked: what did the customer like? What didn't the customer like? Why did the customer stop doing business with the company/ representative? What suggestions does the customer have to help company/representatives get him or her back?

How do these agents fit into the insurance service market? As "agents", they represent the insurance service providers – by appointment. They are the 'primary' sellers of the insurance service and to the customers they are the 'insurance service providers'. Thus, the agents are treated by the customers as parts of the internal mechanism or internal marketing part of the insurance providers. But in reality the agents are not like the internal employees of the insurance service providers and they are outside their internal market and act from the external market of the insurer only. But still the customers expect and approach their agents for all their 'after-sales needs, though these services are attended by the employees of the insurer. As shown, in the diagram above these service recoveries are passed on to the customers through the agents; sometimes of course the employees serve the customers directly, as shown in the diagram. That is why an insurer is different from his competitors in that he can use this agency forces to his advantage in securing the customer loyalty - keeping the customer totally pleased, may be by trying to avoid at least the ten mistakes mentioned above by Ted Barrows.

It can be judged here that the agents - the sales persons in the life insurance market - take a dual role, especially in Indian market conditions. As a result, the agents become dual customers to the insurers - as internal customers like their regular employees and as external customers like their customers. This is the peculiarity of the life insurance domain. It has to deal with the duty of satisfying three types of "customers" - the external customers (the buyers of life insurance service), the internal customers (the employees of the insurer who cater the services of the buyers of insurance service) and the dual customers (the sales persons who sell the insurance service to the public).

Any service failure to any of the three types of the above customers may turn away the external customer. They may leave the service provider. Therefore, the life insurance service provider should be on constant vigil and arrange for the required service recoveries so that the customer does not desert him. He should especially take care of training the dual customers so that they do not commit any of the above-mentioned ten service failures, mentioned by Ted Barrows. This is so because the dual customers of the insurer - the agent - are the proximate and primary seller and service provider in the eyes of buyers of life insurance service. The buyer will naturally look up to the seller only and the buyer's loyalty will depend upon the seller's loyalty to him.

Consumer behavior is complex. Marketing begins with the question, "what does the customer want?" It is necessary to know why and how he buys, his motivations. Several new concepts like social stratification, reference groups, role orientation, culture, opinion leadership, etc., are used to understand and explain buyer behavior. In the buying process or otherwise in retention, he has to become aware of the need to be satisfied, he must want to satisfy that need, he will search for alternatives that will satisfy the wants, he will gather data on the alternatives available and compare the data and he will evaluate the alternatives on the basis of such comparisons. This would be the rational process of making a buying decision. Rational processes are easy to understand and respond to. But, in reality, the factors involved are not amenable to rational analysis.

Successful companies spend time with their customers beyond the initial purchasing transactions, providing value and building engagement and alignment. They continue to learn what their customers need after closing the initial sale.

What customers appreciate? Customers appreciate knowing that you expect to be held accountable for their success after the sale is complete. It provides them with a sense of reduced risk, the inability or willingness of sales people to do business, the way their customers want to do can jeopardize long-term relationships. Customers buy in large part because of their relationship with their suppliers. So it is a good idea for sales people to become students of their customers. Successful sales people use the "Engage-Win-Grow" sales approach to get closer to their customers and continue a positive relationship. To win more sales, they want to occupy space in their customers' minds. Here are some strategies that will win the battle for customers mind share;

- Research the organization: What significant thing is going on with the customer? What companies are its rivals in the market place? Who makes purchasing decisions? Research should clarify what matters most to them. You have to give customers reasons to do business with you.
- Visualize success: Help the customer visualize future success and discuss how to make that vision a reality. The vision for a brighter future that you present should include how you and your products and services will continue to add genuine value for the customers.
- Elevate the conversations: Focus on what the customer cares about (his/her business or life or future) and not on what you care about (the sale). Route the conversation to what your customer wants to accomplish, why it matters to him/her and how you can help the person achieve this goal. Prioritize the customer's target - the needs he/she wants to fulfill – not your targets.
- Differentiate value: Your value represents more than product features and benefits. It should fulfill the customer's goals and be sustainable over time. Try to break down the elements of your products or service's unique value. You are unique if no other product or service delivers the same impact as your product or service.
- Grow the sale: In the grow phase you drive success after the sale by developing the strongest possible relationship with your customers and extending your success to new opportunities. Did purchasing your product or services result in your customer achieving the goals you planned together before hand? Customers do not like sales people who vanish after the sale. They expect sales person to deliver the value they promise and to maintain a relationship past the initial sale.
- Expand the relationship: Summarize how your customer secured value by buying from you. Try to help your customer attain additional success overtime. Rely on the insights you develop through research and interactions to make your case.

Do you really expect your customer to respond favorably to you if you only show up when they are buying something? Relationship matters. Extend your Sales success by going beyond the traditional sales process by learning from top performer sales person and their new and innovative approaches for engaging more effectively with customers, developing and winning new opportunities and growing and sustaining customer relationships. Give customers new and powerful reasons to engage with you by exploring possibilities, vision success and facilitating collaborative discussions with customers in the "pre-opportunity" phase. Align customers, and position and differentiate your unique value. Build trust based relationships with buying and decision teams that establish an unshakable foundation for mutual value creation and develop customer specific messaging that aligns your solutions and value with your customer's success. Drive success after the sale through value realization and relationship growth. Seize the momentum of the value created after your last sales and leverage that success to forge enduring and mutually beneficial relationships with those customers before your next opportunity. It's a cold hard reality: your customers typically spend less than 5% of their time engaged in buying of products and services from you. In order to continuously drive sales, it is imperative to engage with would- be buyers during the 95% of their time when they are not buying from you.

Excellence before, during and after the sale requires a long-term approach, which leads to continuity and creates trust and understanding. The role of service is being changed. Some sales people do a great job of selling until the prospect turns in to a customer. Then after the product or service is delivered, they drop out of the picture, moving on to close new sales. Here are four reasons, why sales people don't focus on after- sale- checkups.

1. They focus on the next prospects before finding out if the new customer is satisfied with their product or service.
2. They fear they might hear complaints during a follow up meeting with the customer about the service rendered.
3. They do not know enough about the product or service they sell/ have already sold, so may invite awkward situation.
4. They forget that every product or service may still require advice from the seller before it fulfills a customer's need.

Top sales people separate themselves from the ordinary by conducting after- sales- checkups, after delivery is made. They recognize that service excellence gives them a competitive edge over other sales professional or other companies. When good service is experienced by customers, they are much more likely to do business with the sales person or company again. Referrals and repeat business may increase when customer expectations for services are met. The first and vital rule is to stay in touch. Immediately after your first delivery is made, call to find out if the customer has any problems? Let your customers know that they can count on you to solve their problems even after the sale is made.

Good things happen, when you give customers an outstanding experience.

- 75% continue to spend more because of a history of great experience
- More than 80% are willing to pay more for the great experiences
- More than 50% who have and had great experiences are three times more likely to recommend your company to others.

That's the hardcore, research proven evidence that it pays to make sure customers get top-notch service. On a less quantifiable level, customer experience professionals agree that it's a pleasure to work with customers who are highly satisfied. Right words benefit everyone. Many of those mutual benefits are the result of good conversations that build better relationships. The right words from a customer experience professional at the right time can make all the difference. Here are the 17 relationship- building phrases and the best time to use them with customers.

At the beginning

Hello. What can I help you with today? # I will be happy to help you with…… # Nice to meet you… (Even on the phone, if you know it's the first – time you have talked, acknowledge it.)

In the middle

I understand why you…. feel this way/ want a resolution/ are frustrated (This confirms you understand their emotions too). # That's a good question. Let me find out for you. (Very effective when you don't have the answer at hand). # What can I do is … (This is especially good, when customers request something you can't do. # Are you able to wait for a moment while I ….? (This is perfect when the task will take a few minutes). # I would love to understand more about this. Please tell about … (Good for clarifying and showing interest in their needs.) # I can tell how much this means to you and I will make it a priority. (That's reassuring to any customer with concerns.)

At the end

I will send you an update when….. # Rest assured, this will/ I will / you will …… (let them know of the next steps you are certain will happen). # I really appreciate that you let us know about this. (Great for times when customers complain about something that affects them and others). # What else can I help you with? (This makes them feel comfortable bringing up something else). # I will personally get this taken care of and let you know when it's resolved. # It's always a pleasure working with you. # Please contact me directly at …… whenever you need something. I will be ready to help.

The concept of perceptions is very significant in understanding customer behavior. What one 'sees' is not what is there outside to be seen. One does not react to all the stimuli that he receives from the outside. As one goes along the road, one does not see all that there is to be seen. The stimuli are selected. Each person makes his selection differently. The stimuli from outside, as visuals or sound, interact with one's beliefs, values, needs etc. The meaning or significance of the stimuli emerges from that interaction. It is organized within one's mind, in terms of one's own logic, created by himself from his past. What one really sees or perceive is what one's mind interprets of the reality outside. One may not feel happy with the tone of the front office Assistant in office and may say he was rude, as if that rudeness was a fact. But it is not a fact, rather one's perception. Perception is a visual phenomenon. It is also a cognitive phenomenon, influencing one's observations and judgments. The perception may or may not be an accurate understanding of the reality. The extent, to which the reality differs from the perception, may be referred to as perceptual error. A number of factors cause perceptual errors. Some of them are role or status of other person, nature of occupation, physical features including dress, body language, incomplete reception of or/and attention to all available symbols and data, Stereo-typing, whereby one attribute positive or negative characteristics on the basis of generalized categorizations, Halo effect, Projection, the tendency to project one's feelings, motivations or characteristics on the other persons. Perceptions influence the nature of relationships between persons and towards organizations that such persons are deemed to be part of it. One like, dislike, suspect, trust, rely, avoid, admire, respect, etc., because of his perceptions of the other. Perception is a function not merely of the persons concerned, but also of situations or circumstances in which the events occurred. While making decisions, one's understanding of the situation, the costs and rewards, etc., are all influenced by perceptions. When one interprets a situation, the input into that process is one's belief system and critical assumptions along with information and data and the output includes cause-effect understandings and predictive judgments. Perception is not an explicit process. The reception, selection and evaluation of the many sensory stimuli may occur below the threshold of consciousness. The perceptual process, being internal to one, cannot be directly observed, but may be inferred from observable behavior. Even the factor of affordability, which should appear as an economic calculation, is a matter of perception. An insurance premium of Rs. 18000 per year would look to be less onerous when quoted as Rs. 50 per day. One of the tasks of the effective salesmen is to tackle the perceptions of the prospects. While handling objections from prospects, insurance agents are effectively trying to influence perceptions.

Another useful concept to understand consumer behavior is that of stroke. People want strokes. They want positive strokes, which may be in the form of compliment, appreciation, praise - reference to one's worth. Negative strokes like scolding, rebuke, criticism, denial, also have messages of recognition, but refer to one's lack of worth. Insurance personnel are in peculiar positions while dealing with people visiting their offices or making enquiries on the telephone. The extent of concern shown by the contents, manner and tone of the conversation, is as much contributory to the nature of stroke as the manner of handling the problem.

Dissonance occurs when the purchaser, after the purchase, starts getting doubts about the decision to buy. This may happen because of subsequent information that the alternatives had better values, observation of certain disquieting features that were not told to him earlier. Dissonance is more likely to happen when the item bought is highly priced or premium paid is high, the decision to buy did not consider all the information completely, the decision to buy was taken in a hurry, the purchase made is for a long term, and the benefits of the purchase are not easily visible. Insurance purchases are likely to create considerable dissonance, because (i) the benefits there from are not tangible, (ii) the benefits may not be seen for a longtime, (iii) the commitment is for a long term, (iv) there are alternatives which may appear to be more attractive in terms of immediate pleasures and (v) there are detractors who would be only too willing to discredit the advantages of insurance. Some more steps toward strengthening loyalty:

1. Knowing your customer and let them know you: Company representatives must remember customer's name and enable customer to know them. Sending "Happy Birthday" & other personalized Emails: Customers are more likely to be loyal if they feel valued; remembering their birthdays, kids' ages etc. Many retailers have implemented triggered email programs for sending birthday emails and discounts during a customer's birthday month. Sending a personalized announcement to your customers, giving them a heads-up before the news gets to media and even earlier, to collect honest feedback gives them WOW feelings.
2. Rewarding loyalty point or gift with preferably a card based loyalty program or thru punch card is a good way to maintain customers' regularity.
3. Making customer loyalty easier by storing customer data, using automation for utilization of data.
4. An easy way to build customer loyalty is to simply be the best out of there amongst others. Making your value proposition part of your brand like good return on policies, 100% maturity claim settlement before due date will work. No company is perfect, so a great alternative to being the best is showing your customers that you are constantly striving to improve.
5. Feedback from customers is very vital. Customer reviews go hand in hand with customer loyalty. Good reviews will drive prospects to your business, good service will convert prospects into customers, and satisfied customers will leave good reviews. But the first step in this chicken-and-egg cycle is better service quality.

CONCLUSION

Regardless of what the product or service is, customers feel happy when they experience recognition (positive strokes), courtesy, responsiveness, sensitivity, competence, reliability or credibility and ease of access. Recognition is more vital than any other factor. If this is provided, then several other defects in service will remain either unnoticed or excused. There can never be a perception of good service from a person who senses that he has been ignored. Recognition is explicit when the other person shows courtesy. Discourteous behavior shows lack of concern and thereby lack of recognition. Recognition means that the contact point accepts the customer as a valued person. Recognition is strong when there is willingness to help (responsiveness) and sensitivity (understanding) to the requirements of the customer. Responsiveness and sensitivity are two different things, but both are necessary for effective service. The competence of the person at the contact point has to be satisfying. When an incompetent person is deputed to deal with customers, the organizations, as a whole, is showing lack of recognition. Reliability or credibility is the same as trustworthiness. The person in contact must reinforce the trust that the service being bought will indeed be available, as promised, after purchase. The insurance agent who is available at the time of claim is adding to reliability. When one exaggerates the term of the offer, or hides some unpleasant facets, leaving it to the customer to discover them later, there is lack of reliability. Candour is the best way of attaining credibility. Ease of Access is another important factor. Locations, telephone connections, hours of operations, etc., make ease of access. Access becomes easier, as distances to travel become shorter, times taken become less, forms to be completed are reduced, steps in the procedure become less and the number of persons to meet becomes less. Ease of Access is the 'Place' in the Marketing Mix. While 'Hi-Tech' may have an increasing role, 'Hi-Touch' in the sense of the personal touch, will be vital. In this competitive global business environment, the customers' expectations are ever increasing; the insurers can meet the expectations only if they are responsive and sensitive to customers' issues. Thus, the insurers must understand the core responsibility of providing all round service to ensure customer loyalty.

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