

9 **The Customer Satisfaction Trap:** Steps for Insurance Brokers to Build Truly Loyal Customers

by Steve Pieroway



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Customer Satisfaction ≠ Customer Loyalty

Historically, satisfaction was seen as the driver of customer retention and the key to increasing profits. But satisfaction is becoming regarded as a limited measure of retention. According to Fredrick Reichheld, "Customer satisfaction is not a surrogate for customer retention. While it may seem intuitive that increasing customer satisfaction will increase retention and therefore profits, the facts are contrary. Between 65% and 85% of customers who defect say they were satisfied or very satisfied with their former supplier." ⁽¹⁾ But does this apply to insurance?

The first World Insurance Report, published by Capgemini and drawing from a sample of over 10,000 insurance customers, confirms this finding. According to the authors,

“... report findings indicate that customer satisfaction does not equate with customer loyalty. While very few customers surveyed in the report expressed outright dissatisfaction over either the type or quantity of interactions they have with insurers or brokers, almost 40 percent of non-life insurance customers switched providers in the last five years.”

VALUE OF LOYAL CUSTOMERS

It's widely understood that loyal customers carry considerable economic benefits. The basic premise of this argument is that profit from a customer increases the longer the customer is retained.

Think of your customers, especially your commercial accounts. Most of the costs associated with existing clients relate to getting the client. Remarketing, and especially renewing, should be a minimal cost against the commissions collected on the account.

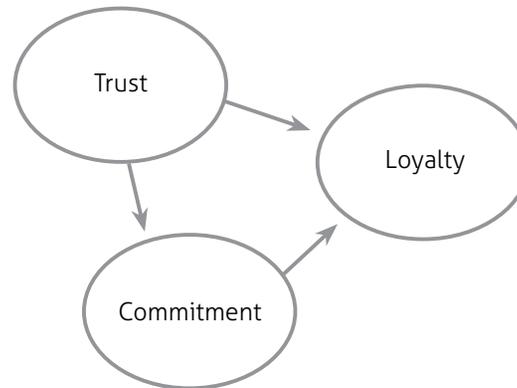
But the costs to win a new account can be considerable. In fact, it's estimated that new customer break-even point in the property & casualty industry is 3 years ⁽²⁾. Bottom-line: you need to keep your customers for at least 3 years to recoup the money you just spent to get them. You want loyal customers!

HOW DO YOU GET THAT? IF IT'S NOT SATISFACTION THAT KEEPS CUSTOMERS LOYAL, WHAT IS IT?

Building Loyal Customers: The Trust-Commitment Model

Relationship marketing literature is pretty well unanimous in its view that positive feelings of trust and commitment lead to loyal customers. How does this loyalty manifest or appear? Repeat purchasing behaviour, positive word of mouth promotion, and a willingness to forgive are the signs of loyal customers with strong relational ties to a company.

The foundation of any relationship starts with trust. In the relationship marketing literature, trust is defined as a “willingness to rely on an exchange partner in whom one has confidence.”⁽³⁾ Only when trust is earned can a desire to voluntarily commit to an brokerage develop. Commitment is commonly defined as an enduring desire to maintain a valued relationship. It is an attitude that guides, or mediates, an individual’s behavior toward a business or representative.



“Sounds great,” you say. “Let’s build loyal customers. Where do we start?” Before diving into the 9 steps to build loyal customers, we need to go through a process of really understanding:

- insurance through the eyes of your customers
- how feelings of mistrust and low-commitment develop
- what exactly are ‘trust’ and ‘commitment’

Insurance Services: Search, Experience Or Credence?

Products and services are believed to exist along a search-experience-credence continuum ⁽⁴⁾. What does this mean? It means that the experience of consuming a product or service, and all of the thoughts and feelings associated with the entire buying process, varies greatly depending on what is being consumed.

SEARCH

Search qualities describe those products and services that can be fully evaluated prior to purchase, such as a pair of jeans or a TV set.

EXPERIENCE

Experience qualities describe those products and services that must be first purchased and consumed, or experienced, such as a haircut, before evaluation can be made.

CREDENCE

Credence qualities, on the other hand, are those that the consumer can never fully evaluate even after purchase and consumption, i.e. those whose outcomes are accepted on faith ⁽⁵⁾. This is due to the complexity of the service being rendered; lay people do not have the training or knowledge to effectively judge how well a service has been performed. Examples of credence services include automobile repair, medical surgeries and the provision of insurance service. As services become more difficult to evaluate, there tends to be more uncertainty, or from the consumer point-of-view, more risk.



Insurance brokering is a credence-based service. For many customers, it is nearly impossible to tell if an broker has done a good job, especially for the given price. In the commercial realm, risk managers at larger organizations may have some background in insurance and determining risk. More often than not, however, risk managers are industry experts, not insurance experts. Thus, risk managers and business owners alike are left to rely on their insurance brokers as experts in determining their needs. This places the purchaser of insurance in a position of vulnerability. When consumers feel vulnerable, they're more likely to be suspicious. And this ultimately leads to mistrust.

To Trust Or Not To Trust: Mistrust In Commercial Insurance

Insurance, especially commercial insurance, is an enigma. From a customer's perspective, feelings of mistrust can easily develop due to a number of factors. Though not exhaustive, the following factors certainly contribute to feelings of mistrust towards insurance brokers.

HIGH DEGREE OF PERCEIVED VULNERABILITY

Unless the insured is an expert in insurance, a certain degree of vulnerability will exist. This arises from the asymmetric relationship that exists between insured and broker, as the broker is assumed to have greater knowledge of commercial insurance. Insureds fear opportunism, and this fear leads to an apprehension to trust.

LACK OF INSURANCE KNOWLEDGE

Commercial insurance is a complex product and service offering that few understand. It is a credence-based service that is not easily evaluated. Lack of commercial insurance knowledge, on behalf of the insured, can lead to feelings of uncertainty and potentially cause anxiety. This leads to feelings of mistrust towards brokers, especially when there is a lack of communication and transparency.

LACK OF TRANSPARENCY

How are premiums calculated? How much commission is being paid? Are brokerages tied to an insurance company or not? Why are certain coverages chosen? Why are certain markets chosen? When proposals are given to prospects or clients, the answers to all of these questions go through their mind. A lack of transparency, from pricing calculations to compensation and contingency payments, lead to feelings of mistrust as insurers are often not aware how such things are handled. If left unexplained, these feelings of mistrust grow as perceptions and then become realities.

FLUCTUATIONS IN PRICING

Hard and soft markets. Premium increases and decreases. Inconsistent premium pricing can be hard to understand for insureds. This pricing behaviour is especially difficult for insureds to understand when the underlying risk stays the same. Added to a lack of transparency and lack of understanding, price fluctuations trigger feelings of systemic mistrust.

I Don't: Low Levels Of Customer Commitment

Measuring customer commitment is difficult. The only true measure is when a customer decides to take their business elsewhere. But by then it's too late. Here are some factors that contribute to lower levels of customer commitment.

UNFAVOURABLE SERVICE ENCOUNTERS

Cookson Walker Consulting cited studies showing that "only 14% of customers stop patronizing a service business because of dissatisfaction with quality (typically claims service or tardy documents in the insurance industry) but that more than two-thirds of customers leave because they find service people indifferent or unhelpful." ⁽⁵⁾ No customer, large or small, wants to receive second-rate service, especially during times of stress or anxiety.

REVOLVING DOOR OF FRONT-LINE EMPLOYEES

A revolving door of front-line employees can often lead to a lower level of service for customers. Why? High employee turnover indicates a low level of employee commitment to the brokerage and customers. Low levels of employee commitment are often accompanied by lower-levels of caring, especially when the job is viewed as temporary or short-term in nature. And a steady stream of new employees erodes any trust that customers may have developed with an employee.

BREAK THE BONDS OF TRUST

Whether intentional or unintentional, actions that break the bonds of trust can erode a customer's commitment to a brokerage. A customer will be much less likely to commit to a brokerage when they do not trust it or its representatives.

BAIT AND SWITCH

The bait and switch technique is not limited to retail furniture outlets. In the B2B context, this technique involves bringing in high-level employees to help sell insurance, and then 'dumping' the business once it is sold to lower-level employees. The transition from courted prospect to newly acquired customer, if not handled properly, can leave customers feeling misled and 'less-than important'.

YOU DON'T KNOW MY BUSINESS

Waiting for front-line staff to locate a file, being continually required to explain your business, or dealing with new staff can make customers feel as though their business is not important. It may not be the case, but these types of service encounters give customers the impression that their business is really not that valuable.

We've identified how mistrust develops and how this can lead to low levels of commitment. Before delving into how to build trust and commitment, we need to understand exactly what trust and commitment are.

What Is Trust?

As previously stated, trust is defined as a “willingness to rely on an exchange partner in whom one has confidence.” Trust is a multi-faceted construct, comprised of 3 factors: ability, reliability, and benevolence. ⁽⁶⁾

ABILITY

Ability is defined as the level of competency in completing a task or job. In terms of insureds, ability refers to the expectation that a job (providing insurance consultation) will be completed to the highest possible standard.

RELIABILITY

Reliability is being able to consistently and repeatedly complete a task. That is, reliability refers to a broker’s ability to do the job the consumer expects done each and every time. Reliability is the expectation that a consumer will consistently receive the same level of service, visit after visit.

BENEVOLENCE

Perhaps the most overlooked aspect of trust, benevolence is the act of placing the needs of your customer first; to look out for the wellbeing of the other party involved in a transaction. Though it is understood that in an exchange, both parties will need to benefit, benevolence is making a customer feel as though you are looking out for their best interests.

What Is Commitment?

Relationship marketing literature is consistent in its view of commitment, with it commonly being defined as an enduring desire to maintain a valued relationship. Commitment is an attitude that guides, or mediates, an individual's behavior toward a business or representative ⁽⁷⁾.

Like trust, commitment is a multi-dimensional construct and is comprised of four distinct dimensions: affective, calculative, locked-in, and normative.

AFFECTIVE COMMITMENT

Perhaps the most celebrated aspect of commitment, affective commitment represents the 'enduring desire' and is often described as a feeling of *I want to*⁽⁸⁾. Think of iPod owners, or of Harley Davidson bikers. These customers exhibit a strong desire to maintain loyal, committed relationships to the products, brands, and companies they love. They *want to* be customers of these companies, and are committed to repeatedly purchasing the companies' products.

CALCULATIVE COMMITMENT

Calculative commitment is defined as the degree to which a customer wants to maintain a relationship with a firm due to a positive evaluation of the anticipated benefits lost if the relationship were to end ⁽⁹⁾. That is, the positive benefits derived from being in a relationship with a business appear too great to forfeit and significantly reduce the desire to search for a new partner. Calculative commitment is characterized by positive feelings of *I have to*.

LOCKED-IN COMMITMENT

Locked-in commitment is the degree to which a customer has to maintain a relationship with a firm due to a *negative* evaluation of the anticipated switching costs and/or the lack of alternatives ⁽¹⁰⁾. The feeling of *I have to* is now *negative*. Though due to a *negative* feeling, customers remain committed because of either a lack of alternatives, or to avoid of the hassles of switching service providers.

NORMATIVE COMMITMENT

Finally, normative commitment is the degree to which individuals feel as though they are obliged to commit to an individual or organization. It is characterized by feelings of *I ought to* ⁽¹¹⁾. Built on the internalization of social norms, normative commitment is typically not prevalent in B2B contexts such as commercial insurance brokering as the need to maintain a professional, business relationship trumps feelings of debt or obligation.

I Love You, Man: 9 Steps To Building Loyal Customers

The strategy to build customer loyalty requires a two-pronged approach for brokerage principals. First, work to develop feelings of trust with your customers and prospects. Second, look to develop feelings of calculative commitment - *I have to stay* with this brokerage because of the value they provide – and affective commitment - *I want to stay* with this brokerage because I really like the company and the staff. Here are 9 practical steps to help principals develop stronger bonds with their customers.

1

SEGMENT YOUR BOOK OF BUSINESS

Contrary to popular business belief, not all customers are created equal. Understanding the make-up of your customer base is the first step to building stronger relationships. One of the primary reasons to segment is that each tier of customer has their own set of expectations based on their business reality. A good rule of thumb, for ease of handling and implementation of tactics, is to split your customer list into 3 groups.

The following are potential criteria for segmenting your customer portfolio:

- industry
- revenue to brokerage
- cost to service: service calls, claims, renewal, etc.
- volume of business i.e. premium volume
- number of documents issued on behalf of client
- history with brokerage (length of relationship)
- strategic value

Of course, this is a sample list. Adjust the criteria you use to evaluate your customer base by adding those criteria that are most important to your brokerage. Furthermore, you can add scoring weights to each criterion to provide a quantitative scoring system.

2

BUILD A CUSTOMER CARE PROGRAM

A customer care program details the steps and tactics for managing accounts and building relationship value. Staff will know what is expected of them. And customers will know up-front, if these steps are shared, what to expect.

A key is to develop 3 variations of the program to meet the needs of each segment of customers. Solicit input from your staff as to what actions are essential and appreciated by customers. Keeping staff involved helps foster a sense of ownership and improves adoption.

Elements of a customer care program can include, but are not limited to:

- routine, timely contact (email, phone, or mailed letter)
- periodic account reviews
- on-site visits
- risk management education
- tools to help your customers manage their insurance business

Here is a sample customer care program for small commercial clients:

- quarterly risk management email: educating the small business owner on managing risk
- bi-annual check-in email: how are things; any questions?
- annual account review: business status, changes to year-over-year business
- inventory management tool: a mechanism for clients to record their inventory

There is no limit to the scope of your customer care program. But keep the items manageable, meaningful and delivered with sincerity.

3

BECOME AN EXPERT - SHOW YOUR CREDENTIALS

Everyone wants to deal with experts. Experts are the knowledge keepers; they are the ones we trust to deliver the best advice. The first step to becoming an expert is to actually receive the training to back your position. There are many designations and certifications available to insurance brokers such as the Chartered Insurance Professionals (CIP), and the Fellow Chartered Insurance Professionals (FCIP), which are awarded by the Insurance Institute of Canada. Brokers may also earn the CAIB, or Canadian Accredited Insurance Broker from The Insurance Brokers Institute of Canada. Having these designations behind your name automatically convey a level of expertise. Once you've earned your credentials, show them. And explain what they mean. Most people outside the insurance industry have no idea what these designations mean.

The second step is becoming known as a reference source. Ensure that local media know who you are and what you do. This will help establish you as a credible source of insurance information, or an 'expert'. They may need to call on an 'insurance expert' to provide an opinion on a news-related matter. Why shouldn't they call you? Use social media sites like LinkedIn, Facebook, and Twitter to communicate what you know about insurance. Be available for people to ask you questions, and give them free of any 'sales pitches'. Showing a sense of benevolence towards your audience will endear them to you like nothing else can.

4

IMPROVE YOUR IMAGE

Consumers look for proxies, or substitutes, to evaluate how trustworthy, reliable, and capable you are as an insurance broker and service provider. In the absence of a relationship, customers look for symbols of trustworthiness.

To build trust, or at least reduce anxieties and fears, improve your image. Essentially, what you are looking for here is any artifact the customer may see or come in contact with: website, business cards, office decor, staff presentation (attire), and proposal.

To improve your image:

1. Evaluate every artifact or symbol a customer may come in contact with, and ask:
 - a. Is the information current?
 - b. Is the design clean and professional (or at least not stuck in the 1970's)?
 - c. Is each symbol of a consistent design?
 - d. How does it (marketing material) compare to my competitors' material?
2. Ask current customers for feedback on how to improve your marketing materials.
3. Hire a graphics design firm to help 'spruce-up' your corporate image.
4. Build templates and an infrastructure that allows all staff to use consistent materials, like proposals, binders, and all corporate communications.
5. Periodically revisit each piece of material and make adjustments.

Of the symbols to focus on, the proposal and binder are especially important. Your staff must be able to present your business offering in a manner that is both professional and easily understood by the prospective insured. This will help to build trust with your prospect, by showing credibility and competency.

5

OFFER VALUE BEFORE ASKING FOR MONEY (AND EDUCATE YOUR CUSTOMERS)

In business-to-business relationships, consumers are over-saturated with sales people asking for their money. Buck the trend and build rapport with your prospects and customers by giving away something first. This can come in many forms:

- a white paper on managing risk, or evaluating risk
- a blog focused on commercial insurance
- periodic newsletter
- weekly insurance article in a local newspaper
- weekly session on a local radio

Help your customers become better customers by offering to help educate them regarding the commercial insurance industry. Writing white papers, blogs, and newsletters can achieve this. With new customers, take advantage of each step of the sales cycle to offer tips and advice regarding insurance.

The important point is to ensure your prospect or customer understands that you want to help them become better at managing their own risk. Better educated customers will help you deliver better insurance services and become more efficient.

6

USE TECHNOLOGY TO MANAGE YOUR COMMERCIAL BOOK

A client calls and asks a question about their file. Your CSR searches, with client on the phone, but cannot find the paper file, because someone else has pulled it and left it on their desk. The CSR has to tell the client that they will call back once they've located the file. Situations like this arise daily in brokerages, and can erode trust in a flash.

Technology, in the form of a commercial management system (CMS) like Policy Works, can manage your entire commercial book of business. These systems store all of your customer files in one centralized location and allow all employees to quickly access files. Individual customer files are always up-to-date and locked-down, and the entire policy history is stored in chronological order.

Quick, accurate responses show your staff's ability and reliability to perform. This goes a long way to assuring customers of your brokerage's ability to handle their business.

7

CREATE A CUSTOMER COMMITMENT POLICY

In all service encounters and interactions, especially those in which your corporate message can be controlled, try to incorporate and communicate shared values and beliefs. Communicating common values helps to develop feelings of affective commitment, feelings of 'I want to' stay with this brokerage because they understand me, they understand my situation.

Work with your staff to develop a set of corporate statements, including a customer commitment policy. A good example of a customer commitment policy is from Stride – The Independent Insurance Specialists, who are based out of Britain. Stride provides prospects with a customer commitment statement (<http://www.stride.co.uk/content.php?nav=76>). Here is part of Stride's customer commitment statement:

We will:

- provide you with clear information about the products and service we offer, including fees and charges
- ascertain your individual requirements before recommending a policy
- not recommend a policy if we can't find one we consider suitable
- encourage you to ask if there's something you don't understand
- look after your requirements before, during and after you have taken out a policy
- ensure you are advised when the policy is due for renewal
- ensure you receive documents promptly
- give you access to a formal complaints procedure should you become unhappy with our service

This statement lets prospects and customers know what to expect from Stride. And it lets Stride staff know what is expected of them.

8

INVEST IN YOUR FRONT-LINE STAFF WITH TRAINING

Organizational behavior research confirms the link between employee commitment and customer commitment ⁽¹²⁾. Quite simply, organizations with committed and loyal employees have more committed and loyal customers. How do you foster employee commitment? Aside from increasing compensation, which has limited incremental value, invest in your employees with training. Examples include professional development with industry associations and designations, and personal development courses, public speaking courses, or even computer literacy courses.

Investing in your front-line staff has tangible benefits:

- Improved customer service: your customers benefit as better trained staff will ultimately provide better customer service.
- More confident staff: you send a message to your staff that they are valued members of the organization. Nothing builds feelings of self-worth like having someone else believe you are worth investing in.
- Enhanced reputation: your agency's reputation for valuing its employees will become well known. The insurance community is small, and employees talk. Becoming known as a brokerage that cares about its employees is not only a great way to keep valued employees, but it is a great recruiting tool, too.

9

DEVELOP A SOLID CUSTOMER TESTIMONIAL PORTFOLIO

Customer testimonials help build trust. Why? Because people giving testimonials are vouching, to future customers, that you provide good service. Testimonials help prospects feel comfortable and are the next best thing to experiencing something first-hand.

Ask customers for testimonials. Testimonial statements are good, but full letters of reference are better. Ask your customer for full letters of reference with specific, positive details. Instead of the generic, "my broker was really good" use statements such as "Mike helped me identify where my business operation was exposed and provided the insurance coverage to ensure I was protected" or, "Joan took the time explain what coverage I required."

You can also ask your customers for video testimonials. Videos give life to the name that would normally appear on a letter. Seeing a person helps prospects identify with customer.

Finally, you can go one step further, and ask some of your best customers if they can be contacted by your prospects. Phone conversations allow prospects to ask questions in a candid manner.

Remember, It's A Journey

Building loyal customers is not a destination, but a journey. Nothing happens overnight. Trust must be earned over time. Commitment only really develops once a solid foundation of trust is established. But by creating feelings of trust and commitment, you give your brokerage a much better chance of keeping the customers everyone's worked so hard to win. And at the end of the day, that's what it's all about.

ABOUT POLICY WORKS

Policy Works is a commercial management system; a software solution specifically designed to help brokers automate, standardize and manage the complexities of commercial insurance. Policy Works standardizes and streamlines workflows, produces professional documents, reduces E&O exposure and provides real-time business intelligence on key brokerage metrics. What does this mean for commercial brokers? Increased profitability, improved efficiency, and better customer service. For more information, please visit www.policyworks.com.

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