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Insurance marketing - services and relationships

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1. Introduction

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 view and have focused on other, although related, subjects (cf. Jaensson, 1997). Thus there is a clear need for further research in this field of financial marketing with a relationship perspective.

Conceptual development is needed in insurance marketing, as the financial markets are part of a dynamic business environment. One major area to be exposed is the importance of relationship management in the insurance business, particularly in terms of the relationships between insurance companies and corporate customers.

The aim of this report is firstly, to develop a conceptual framework from a relationship perspective for the study of insurance services' marketing, and secondly, to draw some conclusions concerning this field.

1.1 Research Background

Deregulation and internationalisation of the Swedish, as well as the international financial markets, 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 relationships insurance firms are working to bind their existing customers more closely to them.

An insurance business research project has recently been initiated in the Department of Business Administration at the University of Uppsala, forming a subgroup of the main research project entitled *Financial Markets in Transition*. The focus of the insurance project is on the relationships between insurance companies and their corporate customers. Interesting aspects include how highly the customers value the relationship in comparison with the price level of the services offered; the perceived quality of the exchange relationship; the level of interdependency, mutual trust, and commitment; how the relationships are developing in an increasingly competitive market; as well as the consequent implications for marketing management in insurance companies.

2. Financial Marketing

2.1 The Financial Markets: A Definition and Recent Development

During the last decades competition has intensified in the financial markets, mainly through deregulation and internationalisation. Together with the increased competition companies have 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 is 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 processes of deregulation and technological development have altered the traditional barriers between different institutional groups, and there has been a redefinition of the marketplace: we tend to speak of financial services as a whole rather than banking or insurance specifically. This represents a threat and, at the same time, an opportunity to financial providers, as it opens up the possibilities of offering customers a more integrated range of financial services. Many financial institutions have expanded into new, but still closely related, markets 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 markets has affected the conditions for operations in the Swedish 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 brokerage was introduced and passed in 1990, the borders between banking and insurance were demolished in 1991 and both these lines of business could be pursued within the same corporate group. According to the EES-treaty of 1992, the possibilities for running a financial business in other European countries were enlarged, and in 1993 a new law on competition was introduced in line with the adaptation to EC regulations. Following full membership of the European Union in 1995, competition from foreign financial institutions intensified.

2.2 A Definition 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 of personal interaction are also exemplified in both cases. Car rental is often handled in a "standardised" manner, not necessarily entailing personal contact other than signing a contract and receiving a key, whereas an insurance contract requires a high level of personal interaction, albeit, at times, telephonically.

Christian Grönroos, a distinguished researcher in service management, made the following effort of compiling a definition of the phenomenon of services:

> ”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 employees and/or physical resources or goods and/or systems of the service provider, which are provided as solutions to customer problems." (Grönroos, 1990a, 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 (Grönroos, 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 the service. Services are often characterised as heterogeneous, as it is difficult to achieve standardisation of output; services are perishable and cannot be stored; and a customer always has access to or the use of a service, but not ownership of the activity or facility. (Cowell, 1984)

These may not be the sole ruling definitions of services**,** but they will serve to guide the thoughts presented in this report. At the pre-purchase stage services are also more difficult for a consumer to evaluate compared with goods, as any evaluation of services will be low in tangible qualities and thus difficult to compare based on previous experience**,** if any. Consequently, for many customers, any evaluation of, for example, financial advice or product recommendations, must be based on trust in the financial adviser. (McKechnie, 1992) The service is generated by the service encounter, providing possibilities for individual evaluation, and resulting in a contextual perception of the service, the *surrogate clue* (Laing, 1995). The surrogate clue is, as suggested by its name, the substitute for a tangible *product*, consisting of relationship-based factors, for instance based on experience or reputation, and more or less tangible outcomes of a service: such as the rented car, a credit card, or an insurance contract.

Consequently, services may be tangible to some extent, or perceived as tangible in terms of the surrogates offered for the intangible service. In order to clarify the vocabulary used below, the term "product" used in service contexts denotes a service product unless stated otherwise. Products in the form of goods, as opposed to services, will in undefined contexts be called "goods."

To illustrate the intangible character of services, Shostack's *goods-service continuum* was selected after the "services-part" (ranging from the "impure" service towards the "pure" service with an intangible dominant) had been separated from the original examples of services and goods. This continuum is illustrated in Figure 1.

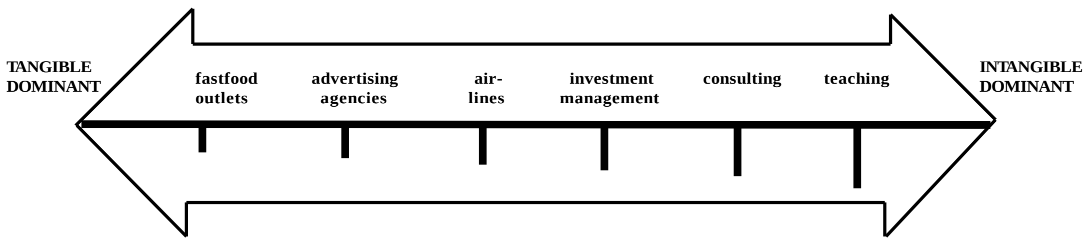

Figure 1. *The service continuum, modified from the goods-service continuum.*
(Source: Cowell, 1984, p. 34.)

One of the major features of a marketing strategy is to go beyond the physical aspects of the mere product (described as a set of attributes: tangible, intangible, physical and chemical) and to see the goods, or service, as a set of attributes that the buyer may accept as satisfying his or her needs and wants. In the case of marketing of services, however, the intangible attributes are relatively dominant and that calls for special understanding of the marketing effort (Cowell, 1984). As noted above, services can be more or less tangible and this has consequences on the supplier-customer relationship. Extrapolating from Shostack's model, a hamburger meal may be seen at the same time as both goods (with the tangible content of nutritious food) and a service, and swiftly consumed. If this is compared with teaching at the other extreme, the service is dependent on the learner's own ability to comprehend the content, and is considered predominantly intangible. The knowledge gained is the remaining, but still impalpable, result of the service given.

2.3 Characteristics of Services in the Financial Markets

Financial services are not only intangible. They may also be very complex in that they consist of obviously related units, but the degree and nature of their interrelationship is not completely known. Thus, for research purposes, we chose to describe services, and especially financial services, in terms of *tangibility*, *complexity* and, a crucial variable in marketing, *comprehensibility*. The latter refers in general to the customer's ability to fully comprehend the elements comprising the service. We have used Shostack's model above and adjusted it to suit our purposes, modifying it into a *financial services continuum* (see Figure 2).

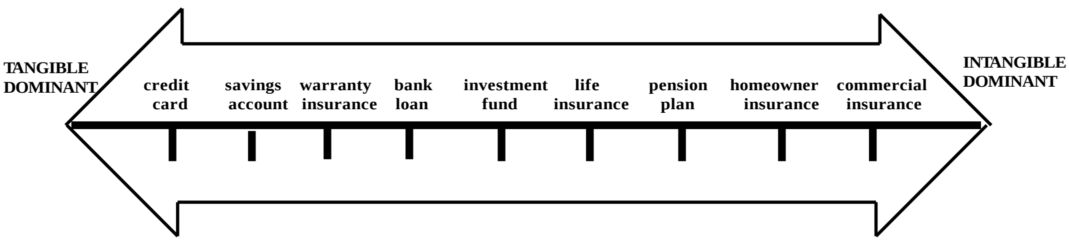

Figure 2. *The financial service continuum.*

(Source: Derived and modified from Cowell, 1984, p. 34.)

The more intangible the service the more important the management of relationships, a factor which has to be stressed in the insurance business. Even though all financial services have an intangible dominant, they vary in their degree of tangibility in terms of the consumer's ability to grasp the particular service mentally — to *comprehend* the service rendered. For example, a credit card is very palpable, lying in the wallet awaiting an increase in the propensity to spend, connected with the knowledge of the card as a symbol either of money in an account or the ability to get credit. Somewhere halfway down the scale is a bank loan. Money is needed in order to buy a house, the bank is contacted, a contract is signed and the loan is a fact, paired with the knowledge that it has to be paid back, together with interest on the borrowed money. This is not particularly complex to understand, at least not the main thrust of it concerning the financial ability to buy a house. Commercial insurance, however, is at the intangibility extreme. Here we find a service product providing a corporate manager with cover for almost any loss, expected or unexpected. This kind of insurance entails numerous contracts, agreements, and clauses, which are generally only studied when there is an acute need to do so (i.e. when the customer has suffered a loss). The service for which the insurance premium is paid is *risk reduction*, something that is difficult to comprehend until a loss is experienced and the information is gathered on how the insurance company will compensate the loss.

Insurance services may be considered as more intangible than, for instance, a bank service entailing immediate withdrawal of money, as there is no instant result from the transaction of money concluding a contract, except for the very contract signed. In the matrix below, we show three common kinds of insurance services. These are compared in relation to the tangibility, complexity, and comprehensibility of the affecting variables. The relative degree of each variable was assessed and allocated a mark ranging from 1 to 5, where 5 signifies the most weight for the variable in question (See Table 1).

Table 1. Assessed levels of tangibility, complexity, and comprehensibility in three different types of insurance.

TYPE OF INSURANCE / ***VARIABLE***	Auto insurance	Home insurance	Commercial insurance
Tangibility	4	3	2
Complexity	1	3	5
Comprehensibility	4	3	2

The purpose of a matrix like this is to show where efforts must be made in order to be successful in marketing services which, with a low degree of tangibility and a high degree of complexity, are relatively more difficult to understand. In order to make a complex product more tangible for the customer, the provider must put efforts into raising the customer's level of comprehension, and this must be one of the focal objectives of the marketing strategy.

Although intangible services may be difficult to comprehend, the relationship between the buyer and the seller is not. Thus relationship management, by focusing on and thereby establishing an interdependent relationship where information is mutually given and mutual trust is experienced, becomes the means by which the buyer can be helped to comprehend the offered service. Attention is no longer on the core service: the intangible insurance service and its implications. Instead, in a good strategy for confronting intangibility, the tangible relationship between the seller and the buyer becomes the focus.

In addition to the distinguishing features of services in general and financial services in particular that have been described above, there are also two other characteristics worth mentioning. These are fiduciary responsibility and two-way information flows between provider and customer. The latter refers to the implicit responsibility of financial organisations for the management of their customers' funds as well as the financial advice supplied. It is also very much a case of mutually exchanged promises between the two parties in each financial services transaction. Furthermore, there are large investments in time and efforts required by both parties in a financial relationship in order to acquire the necessary experience and information. From the customer's point of view regarding the assessment of the service provider's reliability, it is usually a fact that once satisfied, the customer will more likely remain with that financial institution than incur the costs of searching for and evaluating alternative suppliers. (McKechnie, 1992)

3. Relationship Marketing

3.1 The Concept of Relationship Marketing

The term "relationship marketing" has become popular during the 1990s, both as a fad word and as a concept. The traditional concept of marketing is often described as referring to operations where 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. Håkan Håkansson and Jan Johanson) and in services marketing (the Nordic school of services, e.g. Christian Grönroos and Evert Gummesson). The new approach stressed the relationship between the seller and the customer, and ever since the publication of an 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 markets, symbolised by the 4Ps. Establishing, strengthening, and developing of relationships with customers was in focus, in particular primarily long-term and enduring relationships.

Transactional focus	***Relationship focus***
• Orientation to single sales	• Orientation to customer retention
• Discontinuous customer contact	• Continuous customer contact
• Focus on product features	• Focus on customer value
• Short time scale	• Long time scale
• Little emphasis on customer service	• High customer service emphasis
• Limited commitment to meeting customer expectations	• High commitment to meeting customer expectations
• Quality is the concern of production staff	• Quality is the concern of all staff

Figure 3. The shift to relationship marketing.
(Source: Payne et al., 1995, p. viii)

Thinking of marketing in terms of *having* customers, not merely *acquiring* customers is crucial for service firms. Berry defined relationship marketing as attracting, maintaining, enhancing, and commercialising customer relationships, so that the objectives of the parties involved are met (Berry, 1983). This is achieved by a mutual exchange and fulfilment of promises. Establishing a relationship involves making promises, maintaining it is based on fulfilment of the promises made, and enhancing it entails making a new set of promises (Grönroos, 1990b).

Relationship marketing, based on the fact that provider and customer co-operate 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 and easy to control (Grönroos, 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 or her promises and these promises must be kept on both sides in order to ensure profitable long-term business operations (Grönroos, 1990a).

3.2 Relationship Marketing in an Insurance Environment

A relationship marketing approach allows the insurance marketer to offer a product in response to needs 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 a customer the more effectively the customer can be approached with appropriately targeted products (Harrison, 1993).

One of the major themes in relationship marketing, as well as a key to profitability, is to develop long-term relationships with customers. This involves the ability to retain customers, and is in turn, dependent on agents 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 policyholders 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 customers defined retention as dependent on the provider’s professionalism, value, accuracy, and helpfulness, whereas (small) commercial lines customers claimed that retention was dependent on quick service, value, and an understanding of the company’s needs (Sonhine-Pasher, 1996b). The same study showed that of the 1500 personal lines policy holders surveyed, 52% were more interested in forming a long-term 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 750 commercial lines customers in the survey, 67% regarded property and casualty insurance as a good investment in the long run, whereas 33% were less likely to agree on that, many of them having switched agents in the three years preceding the survey.

IIAA concluded that “achieving service excellence is an ongoing process of integrating several areas, including management leadership (setting a vision for commitment to superior service), tangibles (the appearance of physical facilities), information (data and management systems), human resources (customer service) and processes and procedures (examining work flows)” (Sonhine-Pasher, 1996a, p. 3). This is very much in line with the discussion so far, and emphasises the customer relationship and relationship management. However, the tangibles referred to by IIAA are different from the concept of tangibility discussed above. Clearly, business strategy has shifted and there is a strong movement towards exploring the economics of relationship management and customer retention as researchers as well as practitioners refer more and more to the customer relationship as the unit of value (e.g. Gummesson, 1997; Goldberg, 1997).

3.3 Customer Loyalty and the Return on Relationships

Today a company’s market share is often considered less important than its *share of customer* (cf., Gummesson, 1997). This refers to how much of the customer’s potential engagement with the services the company is able to provide is, in fact, realised and managed (a low share of potential engagement indicates customers who buy from many sources). As Goldberg (1997) noted, a customer must be “viewed and managed not as part of a large, homogeneous mass but rather as a unique individual representing a unique business asset” (p. 29). Consequently, service companies are trying to think in terms of possible ways of measuring the financial implications of customer loyalty, as well as maximising the lifetime value of the customer to the companies. Some ideas influencing approaches to the building of customer loyalty are to sell more than a product; to be a partner, not just a vendor; to walk in the customers’ shoes to understand their situation; and to decrease employee turnover in order to retain customers. Understand and solve a customer’s business problem and the relationship is deepened. (Jacob, 1994)

Customer loyalty may be considered a key to 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 research showing that in certain private insurance business it may take as long as seven years before the individual customer gives the provider any profit from the relationship (Gummesson, 1996). The “loyalty management guru,” Frederick 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 relationships (Reichheld, 1996).

The mission ranked at the highest 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 stay loyal because of the value they receive, not because of a marketing program. Hence the role of the marketing department is "to ensure that the efforts of each department are coordinated into effective delivery of a unique value proposition, which will provide superior value and thus, earn customer loyalty" (Reichheld, 1995, p. 238).

An enhanced level of customer loyalty includes the benefits of increased revenues from repeat sales and referrals 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 relationships" (Gummesson, 1997, p. 205). The measure not only relates to customer-supplier relationships, but also to competitor relationships. Following Gummesson's reasoning, examples of ways to improve the return on relationships are given below (Gummesson, 1997).

3.3.1 Customer-Supplier Relationships

Marketing costs decrease with the need to recruit new customers, and as both suppliers and customers become better partners, coproducers, and codevelopers, this has a positive impact on quality. This also provides the opportunity to get to know the customers better and hence to become more sensitive to their needs. This, in turn, increases the ability to target the offerings more effectively, all with favourable effects on outcome and revenue. Additionally, customers become better *part-time marketers*, spreading the word about their satisfaction with the supplier, without burdening marketing and sales budgets. Loyal customers also become less price sensitive, within certain limits, as a well-functioning relationship makes them value relationship dimensions such as trust, commitment, and convenience more highly than a lower price elsewhere.

3.3.2 Competitor Relationships

A company's competitors experience more difficulty when retention and loyalty increase in its business relationships, and the rate of defection decreases. They are no longer fed with defectors, at least not from the focal company. Collaboration with competitors, something almost unthinkable only a few decades ago, may be most cost-effective if managed in the right way; by collaborating in an industry, competitors can help each other to improve conditions for the industry as a whole.

However, Gummesson offers words of caution for the loyalty marketing relationship manager. He reminds us that *satisfied* not is the same as *loyal* (efforts have to be made to make satisfied customers improve the retention rate) and neither is *loyal* the same as *profitable*, since a company always has to actively recruit the right customers (Gummesson, 1997).

3.4 Relationship Marketing - A Paradigm Shift?

The concept of relationship marketing is sometimes questioned: is it a fad or really a change in the business strategies of companies? According to Gummesson (1997), there is a paradigm shift going on, although this takes place more in the real world of marketing than in the world of theories. In this regard Gummesson differentiates his theories from Payne *et al.* (1995), Grönroos (1996), and Sheth & Parvatiyar (1995), who all realised 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) agrees 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 transactions. The customer becomes a partner who will help the supplier to achieve its 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 goods or services to the unique needs of its customers. Customer targeting and individualisation are key variables of marketing strategy. In business-to-business marketing, salespeople are often the ones responsible for developing and maintaining relationships 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 database appropriate for marketing purposes. The gathered information can be used to keep customers informed about a product, stimulate repeat sales, and thus build customer loyalty. It is also a good tool for planning advertising and targeting the right audiences, and to develop new products and make sure that the appropriate buyers know about them. Obviously, a small company may have an advantage over a larger firm because of its smaller customer base and more personal knowledge of its customers, but the key is to remember that the challenge is to build relationships, not just to try to make a one-time sale. (Johnson, 1997)

4. Insurance Services

4.1 Insurance - A Definition

According to the Encyclopaedia Britannica, insurance is “a contract for reducing losses from accident incurred by an individual party through a distribution of the risk of such losses among a 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 insured suffers loss through the occurrence of a contingent event covered by the insurance contract or policy. By pooling both the financial contributions and the ‘insurable risks’ of a large number of policyholders, the insurer is typically able to absorb losses incurred over any given period much more easily than would the uninsured individual” (Encyclopaedia Britannica, Micropaedia, 1987, p. 335).

A briefer definition of insurance as a phenomenon is “the practice of sharing among many persons, risks to life or property that would otherwise be suffered by only a few. This is effected by each person paying a sum of money called a *premium* which, with those paid by all the others, is put into a ‘pool’ or *insurance fund*, out of which money is paid to the few who suffer loss” (Longman Dictionary of Business English, 1989).

The policyholder thus pays someone else a premium to bear his or her risk, knowing that a possible future loss will be compensated for according to the premium paid. If lucky, the policyholder will never have to experience the tangible results of the service of reduced risk during the contracted policy period. On the other hand, the policyholder maintains a certain uncertainty towards the service that he or she pays for, something that adds to the peculiarity of insurance services.

4.2 Insurance Products

A way to consider the different kinds of insurance is to view them in terms of objects insured, contingencies insured against, payment methods for 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 forms of property, ranging from personal effects via real estate and bank deposits, to ships and goods 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 corporation. The manner of payment in both directions may vary considerably, depending mainly on the type of policy. (Encyclopaedia Britannica, Micropaedia, 1987)

4.2.1 Property/Casualty Insurance

The insurance product, albeit a service, has many different forms. Following the classification above, we start with *property insurance*. The main types of contracts within 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 and non-business property. Commercial, or business property insurance, follows a similar pattern to that of individual property, although in some policies it is more common to cover many kinds of property. In English this is often referred to as "building and personal property coverage" (BPP). In such a policy, the business owner may cover the buildings, fixtures, 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 policyholder with cover against loss to persons and property, including classes such as liability, theft, aviation, and worker's compensation (Encyclopaedia 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. Related to casualty insurance for companies, there is often a clause in *liability* insurance that covers the insured person's possible liability for indemnification of losses like personal injuries, property damages, or managerial misconduct. (Hörngren & Viotti, 1994)

4.2.2 Life/Health Insurance

Life insurance includes all insurance **that relates** to an inevitable event, in the sense that the event must occur at some time. Life insurance is mainly related to a person's death or in the case of a pension plan, the date on which he or she reaches a certain age and retires (Longman Dictionary of Business English, 1989). Life insurance consists of a plan for distribution of funds under which the larger group of individuals can balance the burden of loss from death for the insurance beneficiaries. There are a number of different types of life insurance contracts, such as *term life* for a specific period and *whole life* contracts that run throughout the whole of the insured person's life. Life insurance may also be classified according to type of customer, where the major types are ordinary, group, and credit. Ordinary insurance concerns individuals paying an annual premium. The group insurance market consists mainly of employers covering their employees by group contracts. *Credit life insurance* is sold to individuals as part of a purchase contract where the seller is protected for the balance of the unpaid debt should the insured die before completion of the contract. *Health insurance*, within the private sector, is usually financed on a group basis, with the money going into a special fund in order to cover hospital costs, disability, and other major medical expenses, often subsidised by the government and sponsored by the employer. In insurance policies, life and health insurance are often treated together. (Encyclopaedia Britannica, Macropaedia, 1987)

Another type of insurance, representing a growing business as a result of deregulation, is the *unit link*. Unit link insurance is life insurance where the policyholder has the possibility of influencing the savings part. The customer pays premiums that accumulate in the form of shares in a mutual fund, which he or she may alter if the revenue is not at a satisfactory level. (Bergendahl, Hartman & Lindblom, 1990) This form of saving that includes insurance services (or the other way around), is increasingly prevalent and is a trend related to the presently decreasing rates of interest of ordinary bank accounts.

4.3 Insurance Companies

The three traditional functions of the financial markets in any country are to facilitate reallocation of saving and consumption or investments, contribute to the reduction and allocation of risks of and between participants, and to develop and maintain well functioning, efficient, and rational payment systems. Insurance companies have in a natural way inherited the role of contributing to the reduction and spread of risks. (Bergendahl, Hartman & Lindblom, 1990)

Hence insurance companies constitute important actors in the financial markets along with other players, including banks, investment companies, building societies, custodians, and securities brokers. The task of the insurance companies is to manage and level out risks; something they do by aggregating a large number of policyholders into the same group. This group consists of both high and low risk customers. From the evaluated risk of the aggregated group as a whole, the premium of each member of the group is calculated in order to be able to offer the service of coverage by the insurance in question. The policyholder thus pays the insurance firm to bear his or her risk (Jaensson, 1997).

Banks, insurance companies, and most of the other financial companies and institutions have many things in common. Their products and production methods are similar, and they receive payments, keep and bear interest capital, and repay the received means according to contracts established. However, there are still substantial differences among different lines of business. The financial markets are experiencing a major transformation. Deregulation and internationalisation have increased the level of competition, as banks and insurance companies have entered each others' domains and multinational companies have started their own financial companies, serving their own needs (Bergendahl, Hartman & Lindblom, 1990).

A pertinent question these days is how to define a financial institution. Are there any longer banks that only provide traditional bank services or insurance companies that offer only traditional insurance services? A term encompassing both insurance firms and banks is *Financial Services Organisations (FSOs)* (Ennew, Wright & Thwaites, 1993), which might be more appropriate to use when the financial business offers a mix of services. However**,** for reasons of simplicity, this report conceptually maintains the division between insurance firms and banks.

The insurance business can be said to be divided into two completely separate lines of operation: property/casualty and life insurance. *Reinsurance* is a subgroup of property insurance, denoting the sharing of risks among two or more insurance companies, where each actor takes responsibility for a fixed part of any loss and receives premiums accordingly (Pillsbury, 1994). Insurance companies in the life insurance business must legally be reciprocal companies, which is to say that they are owned by the insurance subscribers**.** A property/casualty insurance company can, on the other hand, either be a reciprocal or a public limited company. In Sweden there is a principle of separation which says that an insurance company managing both property/casualty and life insurance must keep the two areas entirely separate. (Bergendahl, Hartman & Lindblom, 1990)

The majority of the insurance companies' service products are found within the property/casualty business. The most important lines of insurance in this field are primarily commercial/industrial and property insurance, marine and transport insurance, professional driver and aviation insurance. During the last decade, there has been a development towards an expansion of mainly large-scale enterprises or corporate groups to form *captives*. These are insurance companies owned by a firm in order to, as far as possible, be able to level out and eliminate incurring risks on its own and thus lower its insurance costs. The captive firm is run like a subsidiary, and it insures either directly or indirectly via reinsurance companies, parts of the company's risks. The main difference between private and commercial insurance is that the latter is less standardised and much more complex in its nature. Corporate customers often want individually adapted solutions, countered by "insurance packages" by the insurers, including combinations of individual insurance. (Bergendahl, Hartman & Lindblom, 1990)

5. The Insurance Relationship

5.1 Particularities of the Exchange and Distribution of Insurance Services

Not only are financial services complicated in nature, but the relationship between the financial institution and the customer may also 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 into consideration both the type of service and the type of customer concerned. The more complex the financial service provided, the higher the long-term commitment, the larger the resources, and the increased risk required (Harrison, 1994).

In order to understand the corporate customer's behaviour when discussing an offer with the company representative it is, among other things, valuable to consider tax legislation and its effects 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 sign on insurance with as low retention as possible, since paid premiums are looked upon as operating costs and thus deductible variable costs (Bergendahl, Hartman & Lindblom, 1990).

The relationship manager in an 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 the customer's level of comprehension. All in all it is a matter of the insurance agent's ability to inform the customer of the elements of the particular insurance. This is also the fact in the chosen marketing strategy, which has to aim at increasing the comprehensibility in the relationship in order to make the service more palpable. There are no shortcuts in making the insurance service more tangible to the customer, and this concerns all kinds of insurance (See Figure 4). Not everyone understands guarantee insurance on a new pair of glasses at first sight, the message has to be transferred in a competent manner. The figure below is intended to convey the theory outlined above, showing the perceived difference between a bank loan and an insurance contract, and the importance of a high level of customer-perceived comprehension of the service product provided. The intention is not to make a product with low complexity more complex, but rather to show that even an uncomplicated product may be difficult to comprehend. The more complex the product, the higher the need for a marketing strategy capable of increasing customer comprehensibility.

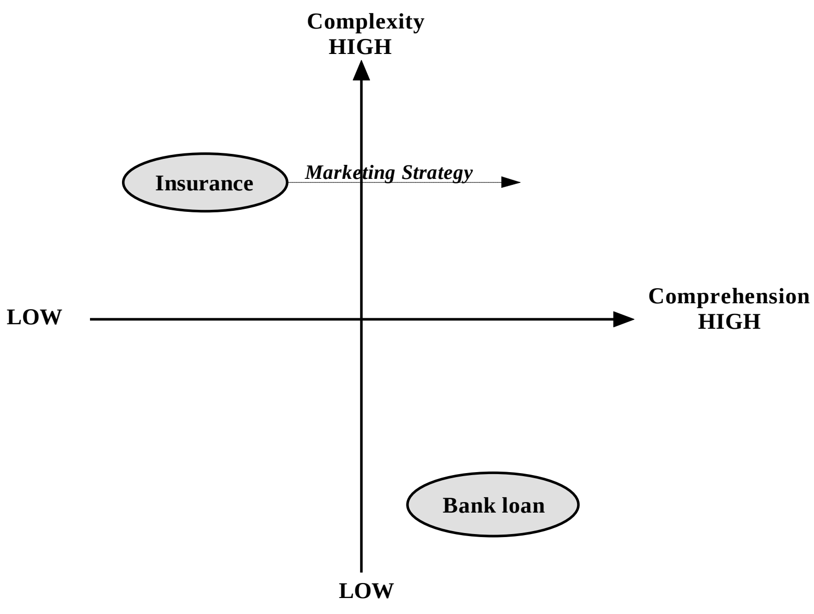

Figure 4. The importance of a marketing strategy that increases service comprehensibility.

Another particular feature of insurance services is the frequency of contact between the insurance agent and the customer. Although there are similarities between financial services companies in general regarding this matter, insurance companies are at the low-end extreme. Consider, for example, banking services. A private customer is, for various reasons, in frequent contact with his or her bank and the banks have consequently, over the last couple of years, understood the importance of, and been influenced by, relationship marketing. At an increasing rate they have offered the services of a personal banker, provided the opportunity of electronic banking and so forth. Even the banks' business clients have experienced the effects of relationship marketing in a situation where the key account manager of a bank often plays a vital role in a firm's future ability to survive (e.g. Danielsen & Gidhagen, 1995).

However, considering insurance services, both in terms of commercial and private insurance, the personal interaction between the parties is limited, and in some relationships there may not even have been a single opportunity to meet personally with the insurance agent. This requires well-educated and highly trained agents in order to maintain profitable relationships. Consequently, there is a difference between relationships in banking and insurance, although stressing the importance of the relationship manager in both cases, considering the fact that insurance services are more complex and difficult for the customer to fully comprehend.

5.2 Mistrust in Insurance Relationships

A unique feature of the distribution of insurance services is, as mentioned above, the fact that a customer buys a service which he or she won't actually notice until a loss is suffered. Hence, the policy holder initially consumes a service in the shape of extremely intangible risk coverage and then after some time has elapsed, when something occurs which is covered by the insurance policy, he or she may have the "opportunity" of consuming the service in another shape, namely the claim settlement. In a recent case study made of ten corporate customers of one of the major Swedish insurance companies, this dual consumption involving two different insurance managers was concluded to be one of the causes of customer mistrust towards insurance firms. (Arneving & Demelid, 1997).

According to this study there is a mutual mistrust between insurance companies and their customers. From the insurers' view it was based on the customers' propensity to try to gain from fraudulent behaviour, but was more categorically expressed by the customers towards the insurance firm. The claim settlement is but one of four areas where relationships often fail due to imperfectly managed interaction. At the claim settlement, customers almost always perceive themselves to have been encountered with suspicion by the agent, as there is a possibility of the customer wanting to gain from his own loss. The second area is in relation to the offers made to gain customers, often through drastically lowered premiums. 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 concerns the history of the strictly institutionalised and regulated insurance business, entailing badly delivered services (Arneving & Demelid, 1997).

As a consequence, a large responsibility is placed on the shoulders of the key account managers of insurance companies. In considering relationships with corporate clients in the 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 or she is, in many cases, the reason for maintaining the relationship with the bank or insurance company (cf. Danielsen & Gidhagen, 1995; Sonshine-Pasher, 1996b).

The concept of trust in the relationship is very much related to the ability to grasp the services provided, and there are two ways of enhancing the relationship (see Figure 5). The relationship manager may either put efforts into increasing the customer's level of comprehension and then work towards the transformation of mistrust into trust or, alternatively start building a 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 agent, is the hub in every relationship. Information management is not only about gathering market information about customers, but also about the ability to transfer *product* information in **a** comprehensible manner to the customers. In that way at least some of the mutually perceived mistrust in insurance relationships would disappear.

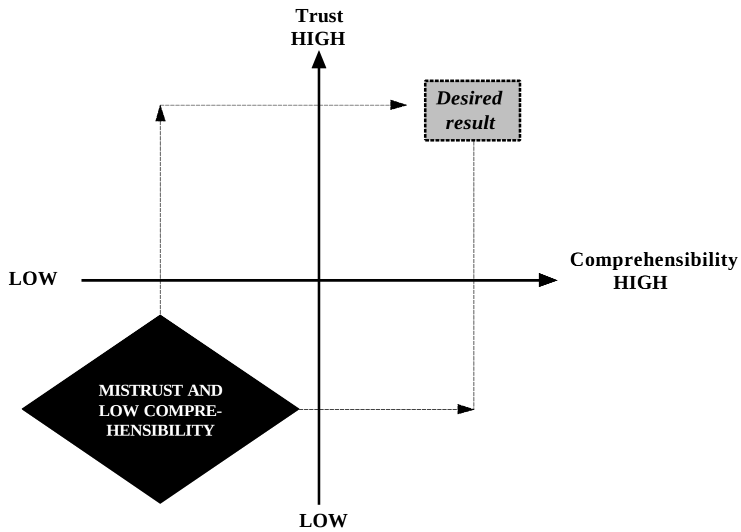

Figure 5. The relationship between trust and customer comprehensibility in a business relationship.

6. Relationship Marketing in Insurance Business

One of the subjects that was mentioned initially was 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:

- insurance services are inherently intangible by nature
- insurance services are characterised by varying levels of complexity
- the customer's level of comprehension is dependent on the insurance manager's experience in, knowledge of, and skill in, managing the complexity and intangibility of the service provided
- insurance relationships may involve aspects of mutual distrust
- good strategies in relationship management are required to enhance customer comprehensibility and to lower customer mistrust in an insurance relationship
- the need for efficient relationship management is increasing in insurance marketing
- the concepts of relationship marketing and service management are interrelated
- customer retention and customer loyalty are viewed as key variables for managing increased competition in general as well as in the insurance business

There are relevant indications that tactically applied relationship marketing strategies provide 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 markets of the 21st century may be markets where there are no longer anything called "insurance companies" or "banks," but only more widely encompassing *financial services organisations*. This development gives cause for launching every action possible to retain and deepen profitable customer relationships in order to survive the battle for market share. The customers are, and have always been, the perhaps obvious, but still vital, key to holding a favourable position in the market, and to do so at a profit. “The customer is king” is a well-known phrase in marketing. However, following this reasoning relationship management is the indispensable *queen*, which requires the deepest respect and a strong and well-elaborated sense of strategy.

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