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THE INFLUENCE OF CUSTOMER RELATIONSHIP MANAGEMENT TO
CUSTOMER SATISFACTION AND RETENTION IN PROPERTY AND CASUALTY
INSURANCE

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ABSTRACT

Customer relationship management (CRM) emerged in the 1990's, promising to revolutionize the business and customer dynamic. At present, CRM has yet to live up to its promise of individualized customer relationships with carefully targeted customers.

In property and casualty insurance, customer and insurer relationships are important. It is more cost effective to retain current customers than to acquire new ones. This thesis explores the history of CRM and how its proper implementation can help identify areas of customer satisfaction and retention in the property and casualty insurance industry.

Data were collected from a regional property and casualty insurer and analyzed to determine customer satisfaction standards. A factor analysis and several multiple regressions were conducted to determine whether satisfaction on identified standards was a predictor of stated likelihood to renew the policy.

The overall regression examined independent variables under the control of the insurance company and showed a significant overall prediction, with 48.0 percent of the variance explained. When looking at the significant unique contributors, satisfaction with premium/policy factor had the greatest influence, followed closely by people service factor and claims service factor.

The second regression was conducted with customers of high-value agencies and explored variables under control of the agent. The model explained 33.8 percent of the variance, and found satisfaction with the agent had the greatest influence, followed by ease of billing, and satisfaction with explanations of premium costs.

The third regression looked at the same variables but with customers of low-value agents. The model explained 47.4 percent of the variance, and found ease of the claims process had the most influence, followed by satisfaction with explanations of premium costs, and ease of billing.

The goal was to investigate how variables identified through previous research would predict likelihood to renew with the insurer. The results of all the regressions support the importance of CRM “moments of truth.” In addition, the results from the analyses of customers of low- and high-value agents provided support for the impact of the company’s internal program, FOCUS.

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CHAPTER I.

INTRODUCTION

One-on-one marketing is not new to American business. In colonial times it was common for a merchant to have direct contact with the customer. This interaction led to trusted bonds between merchants and their customers. The trusted bond between a business and a customer are the foundations of customer relationship management (CRM). CRM is concerned with the creation, development, and enhancement of individualized customer relationships with carefully targeted customers, resulting in maximizing their total customer lifetime value (LTV) (Reinartz, Krafft, & Hoyer, 2004). Companies want to avoid the mistake of not identifying a good customer, and subsequently, not rewarding the customer accordingly. Companies also want to avoid wrongful classification of a low-value customer as a high-value customer and subsequent overspending of resources. The development of a reliable CRM approach aids in the measurement of customer value and therefore reduces the chance of these errors (Reinartz, Krafft, & Hoyer, 2004).

The concept of CRM entered the business world in the 1990's with a promise to change the way businesses interacted with their customers. However, there are some obstacles. CRM is a cumbersome process. It is expensive and difficult to track and

maintain the large database needed to run CRM effectively. However, recent technological advances have greatly improved CRM capabilities.

Despite CRM's popularity, there is still confusion about what it is, what it can do, and the best situations in which to use it. When used properly, CRM can allow a company to better understand its valuable customers' needs and wants, allowing measurable customer service standards to be created. It identifies the service components important to customers such as an acceptable wait time or time of transaction. The company can then implement customer service standards. Once the standards are in place, analysis can then be conducted to see if, by meeting the standards, customer satisfaction improves. Further research could also explore the relationship between customer satisfaction and customer retention.

Database marketing

CRM is often confused with database marketing. Although both use databases to guide marketing strategies, the difference is the focus of the marketing. CRM is aimed at determining and influencing the behavior of *individuals* through one-on-one marketing. Database marketing is aimed at identifying customer *segments* and markets to them.

Customer relationship management evolved in the 1980's from database marketing and was made popular with mass mailers such as American Express and State Farm Insurance. Both companies used their customer lists to build relationships with their customers after the initial sale, leading to retention and cross sales (Hughes, 2003). Database marketing assumes that through the collection and organization of information about a business, marketing costs can be reduced and profit can increase. Typically, the information is consumer focused: the date of the last purchase, what was purchased, and

other demographic information. However, an integrated approach would include information about products, suppliers, competitors, and other business areas. As technology became more sophisticated and economical, database marketing became more accessible and practical to businesses. It became possible to store and use information to build lasting relationships. As a result, it became possible to increase sales and profits by promoting cross sales, repeat sales, and upgrades, by computing customer LTV and using it strategically, and by creating customer loyalty programs (Ragusa, 2001).

One of the greatest benefits of database marketing is improved customer service. When there is accurate information about the customer, the customer service representative (CSR) is better able to address questions and concerns, since they are provided with the customer's past purchase behaviors (Bean, 1999). Information such as past purchases, times of purchases, amounts of purchases, along with any relevant demographic information about the customer, are available. The unique customer service also allows a special, individualized relationship to develop between the company and the customer.

Building a database

CRM's success is dependant on an accurate database. The integrity of the data is important. Not taking care to make sure the data are accurate is a major reason why marketing databases fail (Bean, 1999; English, 1998). Business costs of poor data can be significant, and the investment in data quality generates a payback greater than the initial investment. The true challenge of database marketing is the organization and transformation of numerous scattered data into meaningful customer information (Bean, 1999). Building begins with identifying the sources of data, which include transactional

information, order entry systems, accounting systems, operational manufacturing systems, sales tracking systems, and outside lists.

Customer Data Integration (CDI) is an area within data management that can organize various siloed systems into single customer view (McCormick, 2007). One method is through a hub and spoke customer integration model where a central integration point is created into which all source systems will link. Master customer data is stored within the hub such as name, address, date of birth, e-mail address, telephone number, etc. A unique customer identifier is given to link the customer to different spokes of data sources.

Next, the data must be organized and maintained in a meaningful way. Customer data can change, and it can be difficult to keep the information current and correct. One way this can be done is through the establishment of consistency keys, which make it possible to detect changes in various data sources. This is part of the function of the unique customer identifier. Anytime data from the spokes of the model conflicts with the master customer data in the main hub algorithms are used to create the best match or determine if a new customer record should be created (McCormick, 2007). Consistency key management ensures recognition of the same customer over time (Bean, 1999).

Types of databases

There are three main types of databases: operational, marketing, and warehouse. Each database is quality controlled by a different department (Hughes, 2003). An operational database is used to process transaction information and general business information, such as sales, shipments, and payments. The IT department often maintains the operational database since it is based on accounting principles. It is balanced to the

dollar and is externally audited. The operational database contains information only on current customers, and old data is archived. There are no data on prospective customers until they make a purchase. The IT department also oversees the larger database warehouse.

The marketing database receives information from the operational database and is managed by the marketing department. It includes information on current, lost, and prospective customers and the company's communication with them. It also contains data from preferences and profiles provided by the customer, a response history from marketing campaigns, and a customer lifetime value. A customer's lifetime value is defined as a measure of the net profitability received from a given customer during their future lifetime as a customer (Hughes, 2003).

The warehouse database combines the two databases into one centralized location and is the truly integrated database. CRM evolved from these integrated databases to create an even more individualized relationship for the customer than the non-integrated, multi-database systems that many companies had been using.

Theoretical foundation of CRM

The key theoretical basis for CRM research is the relationship-marketing literature. It is believed that building and managing ongoing customer relationships delivers the main marketing message (Morgan & Hunt, 1994; Webster, 1992). CRM allows a single view of the customer across all contact channels. Meaning a CSR can pull up a customer in the database and see the entire relationship the customer has with the company. It is important that information coordinates across time and contact channels to manage the entire relationship systematically. When CRM is conceptualized

at this level, literature suggests four distinct issues must be recognized: (1) building and managing ongoing customer relationships is the essence of the marketing concept (Morgan & Hunt, 1994; Webster, 1992); (2) relationships evolve through distinct phases (Dwyer, Schurr, & Oh, 1987); (3) it is necessary to interact with customers and manage relationships at each stage (Shivastava, Shervani, & Fahey, 1998); and (4) the distribution of relationship value to the company is not homogenous (Mulhern, 1999; Niraj, Gupta, & Narasimhan, 2001).

The first assumption in the theoretical approach of relationship management is that managing relationships is beneficial to business (Reichheld & Teal, 1996). For example in the medical industry, a patient's relationship with their doctor is the foundation of the business relationship. The doctor could be an excellent diagnostician but if the patient does not perceive a meaningful relationship with the doctor then they may take their business elsewhere. Therefore managing customer relationships has a direct impact on the business. However, these observations have been qualified by empirical evidence that stresses the importance of moderating effects (Niraj, Gupta, & Narsimhan, 2001; Reinartz & Kumar, 2000). Enablers such as organizational design, appropriate incentives, IT resources, as well as industry, company, or customer structures, may affect the effectiveness of relationship marketing campaigns. For example, in a medical practice it would be difficult to measure the effectiveness of any relationship marketing campaign because the customer-business relationship is heavily weighted by the patient's relationship with their doctor as well as other external factors like the patient's insurance company or the convenience of the office hours. It is

essential to keep these mitigating factors in mind when evaluating the effectiveness of CRM.

The second assumption of CRM is that relationships evolve with distinct phases (Dwyer, Schurr, & Oh, 1987). Relationships cannot be viewed as multiple separate transactions; rather, the interdependency of the transactions creates a dynamic over time (Reinartz, Krafft, & Hoyer, 2004). The first stage of the relationship is the customer acquisition, followed by retention, and finally relationship termination. The customer or company can terminate the relationship at anytime, either intentionally or unintentionally. CRM is a longitudinal process, and the customer relationship must be able to evolve over time.

The third assumption in the CRM process is that the recognition of relationship evolution has implications for the company. Companies should interact with customers and manage relationships differently at each stage (Shivastava, Shervani, & Fahey, 1998). A goal of CRM is to manage the different stages of the relationship systematically and proactively. These touch points or key moments of truth are the specific times the company and the customer make contact (Ragusa, 2001). These moments are important and will be addressed in depth later.

The final assumption is that the distribution of relationship value to the company is not homogenous (Mulhern, 1999; Niraj, Gupta, & Narasimhan, 2001). An advantage of CRM is that companies are able to measure profitability based on customers, not just product lines, allowing companies to re-examine resource allocations. The most valuable customers frequently do not receive the company's share of attention and resources while the company overspends on marginal customers. CRM proposes that companies define

different allocations for different tiers of customers, where the customer's value depends on their economic value to the company (Zeithaml, Rust, & Lemon, 2001).

CRM process

Researchers have given different names to the CRM process, but they all have the same underlying themes. The stages include:

- Identification of key moments of truth throughout the customer life-cycle.
- Identification of the ideal value customer.
- Identification of the gap between what the company currently offers and what the customer values most.
- Identification of discrepancies among the current and expected services.
- Identification of core competencies along with enablers required to close the gap.

Customer relationship management is valuable in many industries; however, the insurance business is one where it can be most valuable when implemented and used properly. It takes several years before an insurance customer becomes profitable to a company. Therefore, it is more cost effective to focus efforts on customer retention rather than on customer acquisition (Hughes, 2004). The in-depth relationships developed by CRM can help insurance companies to identify and invest in the most valuable customers. This research focuses on the property and casualty insurance industry. Although the following examples will be insurance specific, the general techniques and processes of CRM remain valid across industries.

Key moments of truth

The key moments of truth are the critical points in which the connection between attitudes and experiences are reinforced or changed (Hughes, 2004). All moments of

truth must be identified in each phase of the relationship between the customer and the business. These touch points are interactions between the supplier and customer, and many times these are the points where the customer's expectations and preferences may shift under the influence of an event. For example, when a claim is processed and generates minimal disturbance to the customer, the customer's perception of the company may increase. Each essential area of customer satisfaction, such as billing or claims, will reveal a moment of truth (Foss & Stone, 2002). The information can be gained from research or by using brainstorming with groups from all aspects of customer interaction to understand what moments are most critical to the customer.

. There are several obvious moments of truth that are important to the customer-company relationship including when the customer receives a bill, when a customer calls the sales line, when a customer goes to the company web site, when a customer calls the company call center with a question or complaint, or when the company contacts the customer in hopes of renewal, upgrade, or cross-sell. Some less obvious moments of truth could include a customer's birthday, a new birth in the customer's family, when a customer moves to a new city, or any time the customer's insurance needs change. The company's performance in moments of truth will determine whether the customer will stay or defect (Foss & Stone, 2002).

St. Paul Travelers provides an example of communicating with customers through moments of truth. St. Paul Travelers, based out of St. Paul, Minnesota, supplies commercial and personal property-casualty insurance along with asset management services. Travelers understood the need to develop a touch point program to increase the customers' positive moments of truth. The program focused on five annual touch points

from the agent that varied with the type of insurance the customer had and the length of time the customer had been with Travelers. Agent touch points included: within 60 days of renewal an annual review of the policy would be sent, within the first quarter a thank you card for renewal is sent, in the second quarter a cross-sell postcard is sent, in the third quarter a newsletter is sent, and in the fourth quarter a seasonal greetings card is sent (Hughes, 2004).

The Travelers' program showed that for each customer, they had to continually determine the appropriate message, the frequency of the messages that the customer wanted, the desired channel, the timing of the message, and the likelihood of defection. Travelers revealed that 65 percent of customers who defected, never talked to an agent before they left, but 80 percent of the customers that talked to an agent during the year did not leave. The importance of having touch points for their customers is revealed in the fact that without the communication with the agent they were losing customers (Hughes, 2004).

Customer lifetime value

Once the key moments of truth have been identified, it is necessary to determine each customer's lifetime value. Customer lifetime value is a measure of the net profit that the company receives from a given customer during their future lifetime as a customer (Hughes, 2003). Although several LTV models have been developed so far, one generally accepted superior approach does not exist (Jackson, 1992). The following definitions of key customer costs and revenue sources provide a solid background for initial customer lifetime value calculations.

It is suggested that large and heterogeneous customer groups be separated into homogenous segments that possess different LTV's. In order to create detailed individual LTV's and to ease calculation efforts, each value component should be calculated separately for each customer segment. Then the specific value figures of each group will serve as a basis for the calculation of the individual LTV's. An examination of basic LTV models reveals that the incorporated variables can generally be classified into three categories: retention rate, revenue, and costs (Reinartz & Kumar, 2000).

The retention rate refers to the probability that an individual customer will remain loyal to a company, yielding expected revenue and costs within a fixed period of time (Bauer, Hammerschmidt, & Braehler, 2003). The retention rate can be estimated with the help of empirically validated determinants of loyalty, such as customer satisfaction, switching barriers, and the attractiveness of the alternatives.

The second category, revenue, can be classified into four sub-categories: autonomous revenue, up-selling revenue, cross-selling revenue, and contribution margins resulting from referral activities of existing customers. These components play a major role in compiling a complete record of the customer's history over the life cycle and are essential to the identification of operative touch points of contact. Autonomous revenue accounts for factors not directly influenced by the company or that are only affected by standard marketing measures like TV advertising. Essentially, it is basic revenue not including targeted measures to increase up-selling and cross-selling. It is usually calculated by means of traditional procedures of demand forecast, e.g., analyses of time sequences. Up-selling revenue is generated by the additional selling of the same product resulting from increased purchase frequency and intensity in long-life relationships

(quantity effect, i.e., higher purchase amount per transaction and more transactions per period). It also emerges from a price effect, where selling of higher-priced substitutes of the same category to loyal, long-term customers that are less price sensitive (Reinartz & Kumar, 2000). Cross-selling is defined as the selling of complementary products or product categories respectively which might not otherwise have been bought from the company (Reichheld & Sasser, 1990); for example selling homeowners insurance to an automobile insurance customer. The reference value measures margins from new customers acquired through a referral by existing customers.

The basic methods for predicting costs, the third category, are those that are commonly used in product-related accounting. The traditional forecast methods have been supplemented by findings about cost reducing effects of long-term customer relationships (Reichheld & Teal, 1996). Acquisition, marketing, recovery, and sales costs must also be included.

There are many LTV equations and models, and, as of yet, there is no single calculation that encompasses all the relevant parts of LTV. The following equation (see Figure 1) from Bauer, Hammerschmidt, and Braehler (2003) summarizes many of the essential facets of LTV, including aspects of revenue, costs, and retention rates. Indirect-monetary contributions such as information, cooperation, and innovation value are also included.

$$CLV_i = -AC_i + \sum_t \left[r_{ti}^t * \frac{(AR_{ti} + UR_{ti} + CR_{ti} + RV_{ti}) - (SC_{ti} + MC_{ti})}{(1+d)^t} - (r_{ti}^{t-1} * (1 - r_{ti})) * \frac{TC_i}{(1+d)^t} + r_{ti}^t * \left\{ \frac{InfoV_{ti} + CoopV_{ti} + InnoV_{ti}}{(1+d)^t} \right\} \right]$$

Figure I. Model to calculate LTV.

CLV_i	Lifetime value of customer i (net present lifetime profit)
AC_i	Acquisition costs of customer i
r_{ti}	Retention rate of customer i in period t
AR_{ti}	Autonomous revenue of customer i in period t
UR_{ti}	Up selling revenue of customer i in period t (retention value)
CR_{ti}	Cross selling revenue of customer i in period t (cross selling value)
RV_{ti}	Gross contributions from reference activities of customer i in period t (reference value)
MC_{ti}	Marketing costs for retaining customer i in period t
SC	Costs for serving the customer i in period t (cost of sales)
TC_i	Termination costs for the relationship with customer i
$InfoV_{ti}$	Information value of customer i in period t
$CoopV_{ti}$	Cooperation value of customer i in period t
$InnoV_{ti}$	Innovation value of customer i in period t
d	Discount rate appropriate for marketing investments
T	Length (in years) of the projection period

Once the LTV has been established for the customers, it is possible to develop a profile containing characteristics of the most valuable customers. Insurance market research has revealed that ideal customers value clear routes of access, quick responses, prior customer information available at any point of contact, clear documentation and explanations, a feeling of trust, and competitiveness (Foss & Stone, 2002).

Valuable customers can give insight into services and standards that they feel are imperative to the insurance experience. Once standards have been established, the gap between what the insurance company currently offers and what the customer wants can be evaluated. If the gap is small, the company is on target with customer expectations. However, if the gap is substantial, the company is not meeting customer expectations and runs the risk of having a customer defect.

United Services Automobile Association (USAA) is an insurance company that understands the importance of evaluating the gap between customer service with the current company standards and the customer's expectations. They regularly gauge the discord between current and expected standards. The insurer has maintained an

extremely low customer defection rate compared to the industry average. Currently USAA has a retention rate of 97 percent (Chordas, 2002). Their high retention rate has been attributed to their superb customer service. When customers defect, USAA surveys them to understand their reasons for leaving. The feedback is then used when re-evaluating customer service improvements.

Hypothesis development

In the insurance industry, knowing a customer's value is especially important. Customer retention is more cost effective than customer acquisition (Hughes, 2004). It takes several years before a customer becomes profitable to an insurance company; therefore, it is imperative customers do not leave the company prematurely. By having an in-depth relationship with its customers through CRM, insurance companies can determine which customers have a high LTV and are worth investment. A targeted and specific marketing approach to its most valuable customers can lead to decreased costs to the company. Taking into account the cost of acquisition and long-term return from the customer, a 10 percent improvement in customer retention can produce a 30 percent increase in pre-tax profitability. In comparison, 10 percent improvement in acquisition only results in a three percent improvement (Benn, 2004).

Customers stay with an insurance company when they are satisfied. By meeting service standards, standards the customers themselves set, satisfaction will increase. When there is a discrepancy between the current and expected experiences, it is in the company's best interest to invest resources to eliminate the gap. In this research, I will explore the relationship between meeting customer derived service standards, customer satisfaction, and retention or their stated likelihood to renew.

Hypothesis 1: Customer identified satisfaction variables under the control of the insurance company will be positively related to the likelihood to renew with the insurer. As customer satisfaction on the identified variables increases, the likelihood to renew will also increase.

In addition, insurance companies often reward their most productive agents/agencies with benefits like bonus advertising funds and preferential treatment for their customers. The additional efforts by the insurance company for their high valued agents, keeps them happy and helps them continue to produce quality customers. In this research, I also plan to explore the relationship between customers of high and low value agencies and the differences in agent satisfaction and likelihood to renew.

Hypothesis 2: Customers identified as having a Platinum or Gold agent (referred to as “customers of high-value agencies”) through the insurance company’s FOCUS program will be more influenced by agent satisfaction when choosing to renew than will customers identified as having a non-Platinum or Gold agent (referred to as “customers of low-value agencies”).

CHAPTER II.

METHOD

Company history

In 2004, a regional property and casualty insurer announced the start of an annual customer satisfaction and retention research project. The stated purpose of the research was to achieve the following objectives:

- explore issues related to performance standards;
- identify factors that most affect customer satisfaction and retention and the relative importance of each;
- understand the relative importance of factors influencing selection of an insurance provider;
- and, profile retention factors and attitudes of personal line customers.

The information from this research was to serve as a benchmark for the company's future waves of customer satisfaction and retention.

In addition, warehouse information was also included on the agent FOCUS status of each customer interviewed. The FOCUS benefit program was created in 2001. The primary purpose of the program is to segment the agency force by performance determined by retention, growth and loss ratio. From which, a rating or focus score is

assigned. A better performance results in a higher rating. Ratings translate to levels: Platinum, Gold, Level 3 and Level 4. The program used to encourage and reward desired agent behavior. Targets adjust every two years to increase the minimum amount of growth per level, decrease the acceptable loss ratio etc. Platinum and Gold agencies are eligible for additional bonus compensation and get more subsidy for reimbursement for marketing and agent training. Internally, services and additional resources are given to Platinum and Gold agencies to help them provide the best service to their customers.

Survey procedure

The primary objective was to examine and prioritize the current customer service standards and to determine which standards should be retained, which needed to be dropped or modified, and what new standards may be needed to increase customer satisfaction. To achieve this goal, data were collected through in-depth telephone interviews with the company's current personal line (property and casualty insurance products designed for and bought by individuals, including homeowners and automobile policies) customers. The questionnaire was created in conjunction with the insurance company's internal marketing research department and an outside marketing research firm and was defined by past qualitative research and the insurer's predefined needs. The data were collected between October 15 and November 18, 2004. The survey was originally timed at 25 minutes; however, demographic questions were dropped to cut the time to 20 minutes. The changes did not interfere with the core standards measures. The final survey contained 18 questions that centered on the company's current customer service standards in the area of billing, claims, and personal lines services. Standards were separated into areas of claims, billing, and personal lines services (e.g.,

endorsements, new applications, and renewals). An example of survey questions is in figure 2. The full survey can be found in the Appendix.

Figure 2. Examples of question wording for variables.

Using the same 0 – 10 scale, with ‘0’ meaning you are “completely dissatisfied,” and ‘10’ meaning your are “completely satisfied,” what number would you use to indicate your level of satisfaction with:

- a. The insurance agent who offers you XX insurance?
- b. How quickly the agent responds to your calls and questions?
- c. How quickly XX responds to your calls and questions?
- d. The ease with which billing is handled?
- e. The speed at which policy changes are incorporated?

Using the 0 – 10 scale, with ‘0’ meaning you are “highly unlikely” and ‘10’ meaning you are “highly likely,” what number would you use to indicate your likelihood to renew your insurance with XX?

Participants

A total of 506 current personal line customers of the insurer with and without past claims experience were interviewed. Claims experience was defined as customers who had placed a claim after January 1, 2004. Respondents were randomly selected from the company’s customer database.

CHAPTER III.

RESULTS

In order to test the proposed positive relationship between satisfaction with service standards and the likelihood to renew with the insurer, a multiple regression was conducted. The independent variables consisted of variables identified as important to customer satisfaction through the insurer's previous qualitative research. Only variables that were under the control of the insurer were examined (i.e., variables controlled by the agent were left out). The variables included:

- Satisfaction with the contacts at the insurance company.
- Satisfaction with how quickly the insurance company responded to calls and questions.
- Satisfaction with the ease in which billing was handled.
- Satisfaction with the speed at which policy changes were incorporated.
- Satisfaction with how quickly claims were settled.
- Satisfaction with the ease of the claims process.
- Satisfaction with the fairness of claim settlements from the insurer.
- Satisfaction with the advice received from the insurer on ways to reduce problems that might lead to claims.

- Satisfaction with the courtesy of people they may have dealt with at the insurance company.
- Satisfaction with the ease of doing business with the insurance company.
- Satisfaction with the options you had for how often to pay for your premium.
- Satisfaction with explanations of premium costs.
- Confidence that the insurer would take care of you to your satisfaction if you had a claim.

The multiple regression method was simultaneous forced entry with all independent variables being entered into to equation model at the same time. Table 1 displays the results of the regression.

Variables	Mean	Std. Dev.	r	Raw Beta	Std. Error	Beta	Sig.	Tol.
Satisfaction contacts at the insurance company	7.92	2.408	.621	.188	.118	.201	.114	.186
Satisfaction with how quickly the insurance company responded to calls and questions	8.11	2.136	.496	-.163	.110	-.154	.140	.273
Satisfaction with ease of billing	8.53	1.904	.594	.288	.097	.242*	.004	.443
Satisfaction with the speed of policy changes	8.42	2.161	.334	.046	.068	.044	.499	.708
Satisfaction with how quickly claims settled	8.56	2.500	.432	.034	.102	.037	.740	.234
Satisfaction with ease of claims process	8.35	2.503	.464	.058	.103	.065	.573	.225

Satisfaction with the fairness of claim settlements from the insurer	8.82	2.242	.374	-.125	.080	-.124	.118	.474
Satisfaction with the advice received from the insurer to reduce problems that might lead to claims	8.77	3.130	.271	-.022	.048	-.031	.649	.661
Satisfaction with the courtesy of people they may have dealt with at the insurance company	8.60	1.914	.512	.077	.124	.065	.535	.268
Satisfaction with the ease of doing business with the insurance company	8.38	1.967	.657	.262	.153	.229	.089	.166
Satisfaction with the premium payment options	8.78	1.541	.416	.020	.113	.014	.860	.502
Satisfaction with explanations of premium costs	7.47	2.406	.485	.136	.067	.145*	.043	.585
Confidence that the insurer would take care of you to your satisfaction if you had a claim	8.17	2.165	.619	.136	.109	.130	.212	.273
R ²			.538					
Adjusted R ²			.500					
F-Value			13.977					
Sig.			.000					

The multiple regression results show a significant overall prediction of the likelihood of the respondents to renew their policy with the insurer, with 53.8 percent of the variance explained by the predictors. All the predictors are correlated with the dependent variable at the .05 level. However, only two variables had significant beta values (satisfaction with the ease in which billing was handled $\beta = .242$ and satisfaction with explanations of premium costs $\beta = .145$).

Substantively, the model is shown to be significant. Therefore, satisfaction in the identified service standards can be used to predict a current customer's likelihood to renew with the insurer. When looking at the significant unique contributors influencing their likelihood to renew with the insurer, satisfaction with the ease in which the billing was handled had the greatest influence, and satisfaction with explanations of premium costs the next greatest influence.

To address the issues of the multicollinearity in the regression and to reduce the number of variables in the analysis, a factor analysis was conducted. The independent variables from the regression were factor analyzed using principal component analysis with Varimax (orthogonal) rotation. Table 2 displays the results.

	Factor 1 People service	Factor 2 Claims service	Factor 3 Premium/policy	Communality
Satisfaction -- How quickly insurance company responded to calls and questions	.840	.187	.262	.810
Satisfaction with contacts at insurance company	.819	.237	.321	.830
Satisfaction -- Courtesy of people you may have dealt with at insurance company	.797	.287	.272	.792
Satisfaction -- Ease of doing business with insurance company	.764	.371	.281	.801
Satisfaction -- How quickly claims were settled	.335	.840	.120	.831
Satisfaction -- Fairness of claim settlements from insurance company	.235	.812	.166	.742
Satisfaction -- Ease of going through claim process	.380	.808	.140	.817

Satisfaction -- Advice received from insurance company on ways to reduce problems that might lead to claims	.008	.558	.366	.445
Confidence you had that insurance company would take care of you to your satisfaction if you had a claim	.450	.527	.413	.651
Satisfaction -- Explanations as to why premium costs where what they were	.197	.183	.769	.663
Satisfaction -- Ease with which billing was handled	.334	.130	.730	.662
Satisfaction -- Options you had for how often to pay your premium	.288	.110	.709	.598
Satisfaction -- Speed at which policy changes were incorporated	.193	.329	.588	.492
Eigenvalue	3.382	3.087	2.665	
% of Total Variance	26.016	23.744	20.498	
Total Variance			70.259%	
% of Common Variance	.37	.34	.29	
Kaiser-Meyer-Olkin Measure of Sampling Adequacy.		.909		
Bartlett's Test of Sphericity	Approx. Chi-Square	2692.559		
	df	78		
	Sig.	.000		

The analysis yielded three independent factors explaining 70.259% of the variance for the entire set of variables. Factor 1 was labeled people service due to high loadings by the following items: satisfaction with how insurance company quickly responded to calls and questions; satisfaction with contacts at insurance company; courtesy of people you may have dealt with at insurance company; and ease of doing business with the insurance company. The first factor explained 26.016% of the

variance. Factor 2 was labeled claims service due to high loadings on the following items: satisfaction with how quickly claims were settled; satisfaction with fairness of claim settlements from insurance company; satisfaction with ease of going through claim process; satisfaction that advice received from insurance company on ways to reduce problems that might lead to claims; and satisfaction; and confidence that the insurer would take care of you to your satisfaction if you had a claim. The second factor explained 23.744% of the variance. Factor 3 was labeled premium/policy due to high loadings on the following items: satisfaction with explanations to premium costs; satisfaction with ease of billing; satisfaction with premium payment options; and satisfaction with speed of policy changes. The third factor explained 20.498% of the variance.

Another simultaneous forced entry multiple regression was conducted using the factor scores as the independent variables. Results are shown in table 3.

Variables	Mean	Std. Dev.	r	Raw Beta	Std. Error	Beta	Sig.	Tol.
Factor 1 – People service	.1872	.7812	.451	1.303	.162	.451	.000*	.995
Factor 2 – Claims service	.0647	.8572	.290	.706	.148	.268	.000*	.996
Factor 3 – Premium/policy	.1346	.8257	.437	1.246	.153	.456	.000*	.999
R ²			.480					
Adjusted R ²			.471					
F-Value			51.102					
Sig.			.000					

With the factor scores, the multiple regression results show a significant overall prediction of the likelihood of the respondents to renew their policy with the insurer, with 48.0 percent of the variance explained by the predictors. All the predictors are correlated with the dependent variable at the .05 level and have significant beta values.

Substantively, the model is shown to be significant. Therefore, satisfaction in the identified service standards can be used to predict a current customer's likelihood to renew with the insurer. When looking at the significant unique contributors influencing their likelihood to renew with the insurer, factor 3 (premium/policy) had the greatest influence, followed closely by factor 1 (people service) and factor 1 (claims service).

In order to investigate the impact of the FOCUS program model on the likelihood to renew, additional regressions were conducted with respondents divided as customers of high value agents (FOCUS levels Platinum and Gold; n = 114) and customers of low value agents (FOCUS levels 3 and 4; n = 43). Respondents not assigned to a FOCUS agent were removed from the analysis. Different from the previous regression, the independent variables consisted of variables under control of the agent were examined (i.e., variables controlled by the insurer were left out). The variables measured included:

- Satisfaction with the insurance agent.
- Satisfaction with how quickly the agent responded to calls and questions.
- Satisfaction with the ease in which billing was handled.
- Satisfaction with the speed at which policy changes were incorporated.
- Satisfaction with the way agent helped with claims
- Satisfaction with how quickly claims were settled.
- Satisfaction with the ease of the claims process.
- Satisfaction with the courtesy of people at agent's place of business.
- Satisfaction with the ease of doing business with agent.
- Satisfaction with explanations of premium costs

The multiple regression method was simultaneous forced entry with all independent variables being entered into to equation model at the same time. Table 4 displays the results of the regression with customers of high value agents.

Variables	Mean	Std. Dev.	r	Raw Beta	Std. Error	Beta	Sig.	Tol.
Satisfaction with insurance agent	8.79	1.743	.399	.244	.093	.209*	.009	.315
Satisfaction with how quickly agent responded to calls and questions	8.73	1.779	.325	-.098	.097	-.086	.314	.277
Satisfaction with ease of billing	8.70	1.619	.434	.259	.070	.207*	.000	.640
Satisfaction with the speed policy changes	8.61	1.943	.303	.073	.057	.070	.200	.666
Satisfaction with way agent helped with claims	9.21	1.795	.329	-.111	.083	-.098	.182	.369
Satisfaction with how quickly claims settled	9.09	2.179	.372	.097	.080	.104	.226	.270
Satisfaction the ease of claims process	9.01	2.151	.393	.132	.086	.140	.126	.240
Satisfaction with the courtesy of people at agent's place of business	9.08	1.528	.325	.090	.109	.068	.411	.297
Satisfaction with ease of doing business with agent	9.06	1.536	.378	.042	.130	.031	.749	.207
Satisfaction with explanations of premium costs	7.80	2.267	.445	.154	.051	.172*	.003	.616
R ²			.338					
Adjusted R ²			.319					
F-Value			16.937					
Sig.			.000					

The multiple regression results show a significant overall prediction of the likelihood of the customers of high value agents to renew their policy with the insurer, with 33.8 percent of the variance explained by the predictors. All the predictors are correlated with

the dependent variable at the .05 level. Three variables had significant beta values (satisfaction with the insurance agent $\beta = .209$, satisfaction with the ease in which billing was handled $\beta = .207$ and satisfaction with explanations of premium costs $\beta = .172$).

Substantively, this model is shown to be significant. Therefore, satisfaction in the identified agent service standards can be used to predict a current customer's likelihood to renew with the insurer. When looking at the significant unique contributors influencing the high value agents' customers' likelihood to renew with the insurer, satisfaction with the agent had the greatest influence followed by the ease in which the billing was handled and satisfaction with explanations of premium costs.

Variables	Mean	Std. Dev.	r	Raw Beta	Std. Error	Beta	Sig.	Tol.
Satisfaction with insurance agent	8.81	1.581	.392	-.023	.187	-.018	.903	.221
Satisfaction with how quickly agent responded to calls and questions	8.55	1.945	.399	.008	.141	.008	.955	.257
Satisfaction with ease of billing	8.49	2.140	.491	.213	.080	.231*	.009	.660
Satisfaction with the speed of policy changes	8.47	2.020	.404	.052	.094	.053	.579	.540
Satisfaction with way agent helped with claims	9.19	1.861	.350	-.360	.175	-.339	.042	.182
Satisfaction with how quickly claims settled	9.02	2.068	.388	-.063	.115	-.066	.683	.189
Satisfaction with ease of claims process	8.91	2.125	.473	.459	.128	.494*	.001	.260

Satisfaction with the courtesy of people at agent's place of business	9.09	1.387	.520	.378	.244	.265	.125	.169
Satisfaction with ease of doing business with agent	8.97	1.551	.427	-.073	.230	-.057	.752	.152
Satisfaction with explanations of premium costs	7.68	2.071	.534	.251	.088	.263*	.005	.578
R ²			.474					
Adjusted R ²			.425					
F-Value			9.561					
Sig.			.000					

The multiple regression results show a significant overall prediction of the likelihood of the customers of low value agents to renew their policy with the insurer, with 47.4 percent of the variance explained by the predictors. All the predictors are correlated with the dependent variable at the .05 level. As in the previous model three variables had significant beta values (satisfaction with the ease of the claims process $\beta = .494$, satisfaction with explanations of premium costs $\beta = .263$ and satisfaction with the ease in which billing was handled $\beta = .231$).

Substantively, this model is shown to be significant. When looking at the significant unique contributors influencing the low value agents' customers' likelihood to renew with the insurer, satisfaction with the claims process had the most influence followed by satisfaction with explanations of premium costs and ease in which billing was handled.

CHAPTER IV.

DISCUSSION

The central aim of this study was to investigate the extent to which variables identified through previous qualitative research would predict likelihood to renew with the insurer. While causality is limited in the models, the company's previous qualitative research supports the inclusion of the variables as predictors. The results from the likelihood to renew regression with insurer controlled variables provided evidence for a positive relationship between satisfaction with the ease in which the billing was handled and satisfaction with explanations of premiums costs. The observed relationship is supported by past studies (Morgan & Hunt, 1994; Webster, 1992).

In addition, the results from the analysis on customers of low- and high-value agents support the impact of the FOCUS program on customers' likelihood to renew with the insurer. While ease of billing and explanation of premium costs influenced customers of both high- and low-value agencies, satisfaction with the agent was a significant contributor to their likelihood to renew for customers of high-value agencies. These

findings suggest the customer facing benefits from the FOCUS program positively influences the customer's likelihood to renew. It seems that although the customer is unaware of the high-value agency's benefits, the customer has a more positive experience, and in turn, is more satisfied with their agent, leading them to renew.

At the time of research, CRM was not implemented at the company due to past failed attempts with database marketing. This study gives adequate support to the usefulness of individualized focus to customers and agents. In the past the company had attempted database marketing, but had difficulty maintaining an accurate customer database. Each area of business and independent agencies had its own database of customer information, but this information was not easily shared with other business units or with the parent insurance company. One customer could be in several databases depending on their policies, and there was not one complete customer database with unique identifiers for each policyholder with all of their demographic and policy information. Customers would call the insurance company with questions and could be transferred several times to different areas before having their question resolved. As a result, customer service satisfaction decreased, and the relationship between the company and the customer was never developed. Since the company was unable to succeed with database marketing, it was unable to explore CRM.

Although at the time of this research the company had not implemented CRM, there are definite stages of the process that can be identified. Key moments of truth have been identified through the company's previous qualitative research. All three regressions analyzed showed the importance of touch point opportunities such as the explanation of premiums and billing statements. The satisfaction with these moments of

truth determines whether the customer will renew or cancel their policy. Additional moments of truth could also include policy declaration and other times throughout the year such as the customer's birthday or during the holiday season.

At the time of research, LTV was not used in the company, so it was not addressed in this study. However, the company is in the process of compiling a database to allow the implementation of CRM containing the elements of LTV. In the future, LTV may be calculated and compiled for customers. Valuable customers will be identified and profiled and more effort should be directed at these customers. High-value customers can give insight and feedback, allowing the company to improve its customer service.

A form of LTV was calculated for the insurer's independent agencies by the FOCUS score. As stated earlier, the primary purpose of the FOCUS program is to segment the agency force by performance determined by retention, growth and loss ratio. The program's intent is to encourage positive agent behavior by rewarding high-value agencies (Platinum and Gold) with additional bonus compensation and more subsidies for reimbursement for marketing and agent training. Internally within the insurance company, services and additional resources are given to high-value agencies to help them provide the best service to their customers. Investing in the high-value agencies encourages a better customer experience and increased satisfaction with the agent, resulting in renewals.

Despite the insight of this research there are some limitations. First, since the insurer did not have an accurate, up-to-date customer database. Phone numbers had to be

appended and for some it was impossible to find telephone numbers. Therefore it was impossible to pull a truly random sample of current policyholders.

Another similar limitation involved the removal of missing data by the research supplier prior to delivery of the data set to the company. Upon further investigation, it was determined the missing data was excluded listwise from the analysis. In FOCUS analysis, customers within the data set lacked a FOCUS level, and as a result, were also excluded listwise from analysis. This illustrates the necessity of the single customer view where all information is housed and accessible.

The second limitation was that this is the insurance company's first wave of research on customer satisfaction and retention. In a follow up study, it would be interesting to examine the extent to which respondents with high satisfaction with the significant variables renewed their policies with the insurer. This could be assessed from exploring the customer database a year later to see if the respondent did actually renew their policy. It would also be interesting to examine this research as a benchmark on service standards. Future waves of this research could identify areas needing improvement along with areas of high satisfaction.

At the time of this research, the company did not utilize CRM due to technological limitations. However, this research supports the need for individualized customer relationships, and the company is currently building an accurate customer database with the hopes of implementing CRM. The in-depth relationships developed as a result of CRM will help the company identify and invest in its most valuable customers. Once implemented, further research will be needed to see if CRM has a positive effect on customer satisfaction and retention for the company.

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APPENDIX

PERSONAL CURRENT CUSTOMER QUESTIONNAIRE

Hello. My name is _____ and I'm calling from XX on behalf of XX Insurance. Our records indicate you have insurance with XX.

A. Is that correct?

- a. ___ Yes, have personal
- b. ___ No (THANK AND TERMINATE)

I'm calling to ask a few questions that will insure XX evolves in a way to best meet your needs. I have a short set of research questions to ask. This is NOT a sales call, and I will not be trying to sell you anything. Is this a good time to talk?

B. Are you your household's primary decision maker for insurance related determinations?

- a. Yes
- b. No (Ask to speak with the primary decision maker or schedule a time to speak with this individual. Record this individuals name for future contact).

C. Do you or any of your immediate family work in marketing research, public relations, advertising, or insurance?

- a. ___ Yes (*Thank the respondent and terminate interview*)
- b. ___ No

1. Approximately how long have you been a XX customer?

_____ years

2. Thinking over your entire experience with XX Insurance, using a 0 – 10 scale, please indicate how satisfied you are with XX, with ‘0’ meaning you are “completely dissatisfied,” and ‘10’ meaning you are “completely satisfied.” What number would you use from 0 – 10? _____

3. When you got your policy with XX, was it because your insurance agent recommended XX or was it because you decided you wanted to use XX and found an agent who offers XX insurance?

- a. ___ Agent recommended XX (GO TO Q. #6)
- b. ___ Customer wanted XX (SKIP TO Q. #7)
- c. ___ Neither/other [DON'T READ]

4. When you got your policy with XX, did the agent show you a number of companies and ask you to choose one, or did the agent do all the research and just recommend XX as being best for you?

- a. ___ Agent provided options
- b. ___ Agent recommended XX
- c. ___ Don't remember/another person made initial choice

5. If your agent stopped offering XX insurance, would you find another agent so you could keep XX, or would you have your agent find another insurance company so you could stay with that agent?

- a. ___ Would switch agents to keep insurance company
- b. ___ Would stay with agent and switch to another insurance company
- c. ___ Don't know/not sure

6. Do you usually stay with your current provider unless your agent recommends a change?

- a. ___ Yes
- b. ___ No

7. I'm going to ask you a series of "either, or" questions. For each, please tell me which is more important in deciding which company carries your insurance. Which is more important: (DO NOT READ "BOTH" OPTION)

- a. Agent's recommendation OR Absolute lowest price (Both)
- b. Staying with the same insurance company OR Consistency in rates (Both)
- c. Fast, easy claims payment OR Agent's recommendation (Both)
- d. Financial rating of company OR Absolute lowest price (Both)
- e. Staying with the same insurance company OR Competitive, not necessarily the lowest rates (Both)
- f. Friendly, fast customer service OR Consistency in rates (Both)
- g. Fast, easy claims payment OR Friendly, fast customer service (Both)
- h. Competitive, not necessarily the lowest rates OR Financial rating of company (Both)
- i. Reputation for settling claims fairly OR It being very easy to reach a person by phone (Both)
- j. Very easy to read billing statements OR Having option to pay for premiums monthly or quarterly or twice a year or yearly (Both)
- k. Trust that your agent will always do what was promised OR Being able to have premium payments taken automatically from your bank account (Both)
- l. Trust that the insurance company will always do what was promised OR Very easy to read, clear billing statements (Both)
- m. Having option to pay for premiums monthly or quarterly or twice a year or yearly OR Insurance company provides advice on how to limit losses and claims in the future (Both)

- n. It being very easy to reach a person by phone OR Being able to have premium payments taken automatically from your bank account (Both)
- o. Insurance company shows it really cares about its customers OR Insurance company provides advice on how to limit losses and claims in the future (Both)
- p. Reputation for settling claims fairly OR Insurance company showing it really cares about its customers (Both)

8. Would you say you always look for personal insurance with the very lowest price, or are you willing to pay more to get better service?

- a. _____ Always buy lowest price
 b. _____ Willing to pay more
 c. _____ “Depends” [DON’T READ]

9. On a scale of 0 – 10, where ‘0’ means “not at all important,” and ‘10’ means “extremely important,” how important would you say it is to have all your personal insurance with the same **agent**? _____

10. Using the same 0 – 10 scale, where ‘0’ means “not at all important,” and ‘10’ means “extremely important,” how important would you say it is to have all your personal insurance with the same **company**? _____

11. We’re trying to determine a series of performance guidelines that insurance companies and their its agents should strive to meet so that customers like you are served most effectively. I’m going to ask you about nine and, for each, would like you to tell me what you’d see as the “outstanding” performance and also an “acceptable” level of performance. For example, in terms of how quickly your agent should return your phone calls for routine matters, how quickly would be “outstanding”? How quickly would be “acceptable”?

- | | <u>Outstanding</u> | <u>Acceptable</u> |
|---|--------------------|-------------------|
| a. Agent returning <u>routine</u> calls? | _____ minutes | _____ minutes |
| | OR | OR |
| | _____ days | _____ days |

How about: b. **Agent returning your calls**

when you have a serious problem or need to need to file a claim? What would be “outstanding”?

What is “acceptable”? _____ minutes _____ minutes
OR
 _____ days _____ days

How

about: c. **Advance notification of when your premium is due?** What would be “outstanding”? What is “acceptable”?

_____ days _____ days
OR
 _____ weeks _____ weeks
OR
 _____ months _____ months

How

about: d. **Advance notification of premium changes?** What would be “outstanding”? What is acceptable”?

_____ day _____ days
OR
 _____ weeks _____ weeks
OR
 _____ months _____ months

How

about: e. **How long it should take for an insurance company to acknowledge it has received your claim?** What would be “outstanding”? What is “acceptable”?

_____ days _____ days
OR
 _____ weeks _____ weeks

How

about: f. **How long it should take to receive payment for a claim?** What would be “outstanding”? What is “acceptable”?

_____ days _____ days
OR
 _____ weeks _____ weeks

How

about: g. **How long it should take to reach a person at the insurance company when you call?** What would be “outstanding”? What is “acceptable”?

_____ rings	_____ rings
OR	OR
_____ seconds	_____ seconds
OR	OR
_____ minutes	_____ minutes

How

about: h. **How long it should take for changes you request in coverage to take effect?** What would be “outstanding”? What is “acceptable”?

_____ days	_____ days
OR	OR
_____ weeks	_____ weeks
OR	OR
_____ immediately	_____ immediately

12. Have you ever contacted XX Insurance directly, or have you only dealt with your agent?

- a. _____ Have contacted XX Insurance (GO TO Q. #17)
- b. _____ Only dealt with agent (SKIP TO Q. #18)

13. Using the 0 – 10 scale, with ‘0’ meaning you are “completely dissatisfied,” and ‘10’ meaning you are “completely satisfied,” what number would you use to indicate your level of satisfaction with the contacts you have had with XX? _____

14. Using the same 0 – 10 scale, with ‘0’ meaning you are “completely dissatisfied,” and ‘10’ meaning you are “completely satisfied,” what number would you use to indicate your level of satisfaction with:

- a. The insurance agent who offers you XX insurance? _____
- b. How quickly the agent responds to your calls and questions? _____
- c. How quickly XX responds to your calls and questions? _____
- d. The ease with which billing is handled? _____
- e. The speed at which policy changes are incorporated? _____

- f. The way your agent has helped with claims—if you’ve had them? _____
 No claims
- g. How quickly your claim was settled—if you’ve had them? _____
 No claims
- h. How easy it was for you to go through the claim process? _____
 No claims
- i. The fairness of the claim settlements from XX—if you’ve had them? _____
 No claims
- j. Advice you have received from XX on ways to reduce problems that might lead to claims? _____
- k. The courtesy of people at **your agent’s** place of business? _____
- l. How easy it has been to do business with **your agent**? _____
- m. The courtesy of people you may have dealt with at **XX**? _____
 No dealings
- n. How easy it has been to do business with **XX**? _____
- o. The options you have for how often to pay your premium? _____
- p. Explanations you receive as to why premium costs are what they are? _____
- q. Confidence you have that XX will take care of you to your satisfaction when you have a claim? _____

15. Using the 0 – 10 scale, with ‘0’ meaning you are “highly unlikely” and ‘10’ meaning you are “highly likely,” what number would you use to indicate your likelihood to **recommend** XX Insurance to others? _____

16. Using the 0 – 10 scale, with ‘0’ meaning you are “highly unlikely” and ‘10’ meaning you are “highly likely,” what number would you use to indicate your likelihood to **renew** your insurance with XX? _____

17. May we have your permission to release your name along with your specific responses to XX management?

a. Yes

b. No--"We will keep your identity confidential."

18. Gender (guess)

a. Female

b. Male

**THANK YOU VERY MUCH FOR HELPING US LEARN HOW TO BEST
SERVE YOU!!**