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Customer relationship management in the insurance industry

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Abstract

This paper addresses the implementation of Customer Relationship Management (CRM) in insurance companies. Thus, we reviewed several specialized papers addressing regional and international solutions for customer relationship management. We focus on strategies used in sales management with reference to the standards of customer service and the models used in customer relationship management. The aim of the authors is to present the benefits resulting from the application of new technologies, thus estimating the pace of change, the new opportunities and the need for flexibility in the relationship with customers. Along with the technological component the human component is also present in order to ensure the successful implementation of CRM.

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1. Introduction

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The rising expectations of customers have forced the insurance sector to introduce more and more new customer relationship management initiatives as it has got a serious impact on the sale of the insurance products, while the technological advances and decreasing costs of technology have reduced barriers to adopting IT based CRM initiatives. As the profitability of the insurance sector is mainly depend on the services it offers and on meeting the customer demand on a regular basis, this suggests that a good CRM initiatives must be the foundation of the insurance sector. The major burden the industry faces is obtaining and keeping clients. This is due to the fact that it has become increasingly difficult for this particular sector to gain profits while curtailing costs.

The purpose of the paper is to present the benefits resulting from the application of new technologies, thus estimating the pace of change, the new opportunities and the need for flexibility in the relationship with customers while highlighting the importance of the human component in order to ensure the successful implementation of CRM.

2. Literature review

Worldwide, especially developed countries are characterized by a stable insurance market with low growth potential and a high degree of competitiveness, the focus in these areas being on creating and managing a portfolio of profitable customers and maintaining it (Biswamohan and Bidhubhusan, 2012). The adopted strategies take into account improving after-sales services (particularly in the field of damage management and complaint resolution) and to develop attractive and complex product packages that closely match the customer requirements. In this regard an important role belongs to the implementation of the customer relationship management concept in the insurance industry.

Compared to this situation, in the Central and Eastern European countries, which have their insurance market in a developing stage, strategies are mainly focused on attracting more customers (due to the important insurable potential) by developing insurance products as accessible as possible and less on completely meeting the need for insurance. The presence of internationally famous brands in the Central and Eastern European insurance market (Vienna Insurance Group, Allianz, Axa, Groupama, Uniqa) is due to the large potential of these markets that can be easily exploited. Consequently, within the top companies competition is very tight, each of them trying to adapt and enforce their own standards and values that have ensured their success internationally. Also the deregulation and liberalization process meant to establish a single European financial market had some important implications for the insurance industry. Due to increased competition, European insurance companies had to adapt their costs and operate efficiently to survive in this new environment. (Kasman and Turgutlu, 2011)

In this very complex context, it becomes necessary to develop in Romania also, some strategies geared to maintaining and preserving the client portfolio, based on the principles of customer relationship management (CRM). Currently, on the insurance market in Romania, companies face better informed customers and more concerned with the quality/price ratio of the offered insurance products and after sales services (particularly in managing damage).

The auto insurance segment is particularly characterized by a high degree mobility of customers, that change their insurer seeking for a better price for the auto liability insurance (RCA), due to the increased tariffs in CASCO insurance products (because of an increased amount of compensation resulting from increased prices charged by service companies and increased spare parts prices) or as a result of dissatisfaction felt when solving the damage claim (late or partial compensation of the damage).

A satisfied customer stays true to the company, purchases other insurance products as well, sends off favourable messages for the company's image and its products, pays less attention to competing brands and to their advertising and it is less sensitive to price, implying a lower cost of service than new customers because transactions are already a matter of routine (Montserrat, Scheike and Nielsen, 2012). Due to the extended requirements gathering way in the insurance market in Romania, it is necessary to develop European standard after-sales service. The quality of services offered in the field of insurance is closely linked to the way databases existing in the insurance companies are managed.

In circumstances where we have a performing computer system recording and managing insurance policies, we can develop specific applications, that are necessary in the internal analysis of each department taking into consideration its activity and can be used to analyze the volume of the gross written premiums, the amount of compensations paid, the continuity and age of insurance - per customer, per business line (auto, property, liability, etc.) per branch / inspector, per collaborator etc. The utilities of applications developed for the customer portfolio underlie the development of the customer care activities. Among these we mention:

- Customer notification services on payment deadlines and renewal of insurance policies;
- Providing facilities or bonuses according to the customer's contract length and damage rate;
- Services to inform customers about new products, promotional offers etc.

A particularly important benefit for the company, resulting from these specific applications, is the possibility of identifying profitable customers considered according into business lines, in order to make them loyal on the long run. Identifying and retaining customers that register a damage rate below 70% in the Casco insurance segment, is an important prerequisite for making this segment profitable. This is particularly important given the fact that, in the Romanian Casco auto insurance market, the ratio between the gross paid indemnities (as compensations) and the gross written premiums is 99%, compared to the average of 71% registered by the European Union's market.

3. Methodology

The research focus of this study is the Romanian insurance market and its approaches towards handling customer relationship management strategies in accordance to the European framework. We focused mainly on secondary data and analyzed the field's literature trying to observe if generally successful CRM strategies are assumed by the insurance companies and what is the key element in this industry.

4. Specific elements of CRM in insurance

The term customer relationship management encompasses all those concepts used by companies in relation to their clients including the capturing, storing and analysis of information about customers, while taking into account the data's privacy and security. This is a business strategy that influences the processes, the culture and technology of an organization in order to optimize revenue and increase its value by understanding and meeting the needs of individual consumers. Implementation of such a system involves the systematization of operations specific to each particular field, in a particular predetermined order and considering a number of components such as: analyzing the company - client relationship in sales, marketing and services, determining the profitability of introducing the CRM system by analyzing the costs and time required for CRM implementation as well as the project and data necessary to carry out the CRM process (Kumar, 2012).

However the customer relationship management process is faced with different challenges, typical for each field of activity, which cannot be solved by applying the same standardized solution. In the insurance field the implementation of this process proved to be extremely complex especially because of the differences that are specific to each type of insurance:

a) Property insurance;
b) Life insurance;
c) Liability insurance.

Property insurance deals with property belonging to individuals or legal entities and may be the subject of natural phenomena or accidents (cars, buildings, household goods, assets etc). So basically all movable or immovable property belonging to individuals or legal entities can be insured (implicitly accepted as clients). Of course, depending on the practical conditions of the specific environment the insurers operate in, their own policies and their experience in a particular market, certain assets are not insured. The conditions for insuring a property or not, may vary from one company to another, from one market to the next.

For example in the Romanian real estate insurance industry, the buildings that are falling into the 1st seismic risk class (red dotted buildings) are not insured for earthquake risk. Lists are prepared by municipalities, but after inspections carried out by representatives of the insurers these lists can be extended to other buildings too.

In the field of Casco auto insurance, because the high damage ratio recorded by this segment on the Romanian market (gross paid indemnities representing about 90% of the gross written premiums), some insurers impose restrictions when it comes to insuring cars that are too old (for example they do not insure cars being more that 10 years old) in order to reduce losses (indemnities paid for this type of cars are usually higher than the paid premium)

In the area of property insurance (corporate) there are times when certain industrial objects cannot be taken over by the insurance company if they cannot reinsure most of the risks that may cause damage to their objective. A significant example can be Cernavoda nuclear plant for which the insurance mechanism involves dispersion of risk as much as possible. Therefore it is secured by two pools (unions of insurance companies which associate to cover risk) with tradition in nuclear security: one is British, British Atomic Energy Insurance Comity (which includes 60 companies) and another Italian (which includes 30 companies). If to these figures we also add the ten participating Romanian insurance companies as well as the companies that are involved indirectly as reinsurers, we can easily draw the conclusion that the number of companies participating in one way or another to ensure the Cernavoda nuclear power plant is over 100.

Agricultural insurance failures have also been problematic in time, especially when this field has been heavily and wrongfully subsidized in some countries. Capitanio, Diaz-Caneja, Cafiero and Adinolfid (2011) using a simple empirical model of insurance markets, show in one of their study that, the risk in subsidised agriculture should only be taken by insurers when the offer can be competitive without the subsidies. Otherwise the agricultural offer is only on the surface profitable, being a cover for a few monopolistic companies which profit from the state's budget.

Life insurance deals with the individual himself and it is meant to reduce disruption caused by natural disasters, accidents, disease etc., or it consists of paying the insured amounts in connection with the production of certain events (death, disability, etc.). Of course, in this type of insurance also, there are exceptions; some people cannot be provided with insurance, such as, for example, people aged over 65.

Liability insurance compensates damages caused to third parties for prejudice caused by the insured. Therefore, depending on the type of claimed insurance, customers are accepted for insurance if they fall within the criteria predefined by the insurer.

Insurance has many specific characteristics that in time proved to be problematic for the implementing of customer relationship management. Firstly many of the specific products require fewer after-sales service. Once you have purchased a life insurance for example, the next significant event is the claim or the expiring term. Therefore investing in additional services for such a product is not justified by an increase in profits and therefore the cost of CRM implementation is also not justified. Secondly sales force in life insurance is more inclined towards new purchases. Although in sales it is recognized that cross-selling is cheaper than the acquisition of new customers, the compensation structure and training of sales people in the field, encourages the acquisition of new customers to the detriment of developing the existing ones. Thirdly it is extremely important to understand that the correct data is not correctly shared across the supply chain, which is composed of several levels on the B2B2C model. For the customer relationship management system to be truly effective it must be able to provide a focal point of information, for all parties to see the interaction to the final customer. Finally, often, implementing CRM in insurance faces the problem of misidentification of the customer. Such a system considers distributors as being customers, completely neglecting the concrete result of the sale to the final consumer (BlueSun Inc., p.2).

5. The key processes of customer relationship management

The customer relationship management encompasses a broad spectrum of activities starting with the segmentation of customers in the database and continuing with acquiring new customers and retaining the existing ones. Therefore CRM is not just a technology but rather an intelligent system, a customer-centred approach of the organization's philosophy in dealing with its customers.

The customer relationship management process in the insurance industry faces many challenges that are explained in Figure 1.

First of all, for fair and effective customer segmentation, the customer *database* needs to be quite *rich* in information. This includes demographic information, information on lifestyle, family, needs and preferences. The challenge for most organizations is to collect this data given that the normal process of selling and carrying out services collects very little information of this kind.

In general, the segmentation and analysis activities applied to the insurance products portfolio, according to customer types or objectives types, in terms of gross written premiums, earned gross premiums, premium reserves, paid indemnities, claim reserves are made in the Actuary Direction. Any insurance company has in its structure an entity of this kind. The actuarial calculus activity, materialized in certain specific reports, depends heavily on the complexity and performance of the IT system. The actuarial calculation activity is closely related to the underwriting activity, having a very strong technical character. Overall, the actuarial calculation activity, primarily involves collecting statistics on the probability of the insured damage to occur within the specific category the insured objective belong to. In life insurance this task is not complicated at all consisting in predictions of the mortality rate by age, combined with other factors such as sex, occupation, smoking, etc. In non-life insurance, the classification of the insured objectives involves a more complex activity due to the diversity and the multitude of technical characteristics.

Once having *collected statistical data* related to the categories of the insured objectives, the next step is to truthfully estimate the future losses for a sufficiently long period of time depending on which the technical insurance rates are set.

The second step consists in *analyzing these databases*, its objectives being segmentation, cross-selling, long-term customer retention, etc. Goals are achieved through different approaches of the analysis namely by data association, clustering or classification.

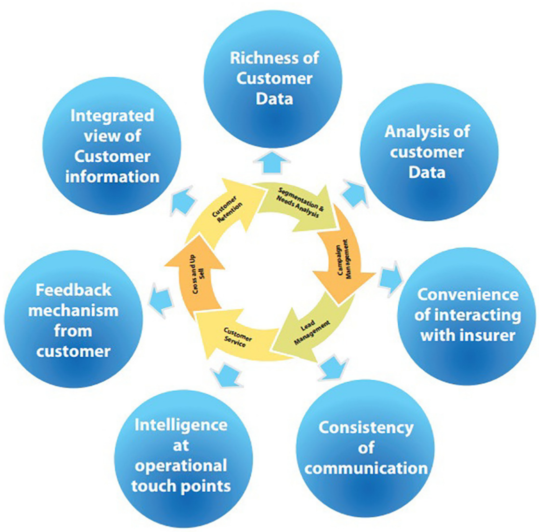

Fig.1. Challenges in customer relationship management (source: Tata Consultancy Services)

The next step concerns the importance of the *interaction with the insurer* in a location and through various channels that are available to the consumer, which is extremely important for an efficient service management.

The CRM scheme refers to the *consistency of communication between the different channels* through which the organization offers services to its customers. Providing consistent communication between the various channels (contact centres, sales and service subsidiaries, portals) is problematic if there is no integrated approach for storing and accessing the information collected from customers.

It is also required to implement some *intelligent measures* at the work sites which after having received the collected raw data must be able to make the necessary connections to increase cross-selling based on customer profile and its long-term loyalty.

Customers of insurance companies usually hold more than one contract with the same insurer. A generalization of classical survival analysis can be used to examine the risk of losing a customer once he chooses to cancel an initial insurance policy. This method, analyzed by Guillén, Nielsen, Scheike and Pérez-Marín (2012) does not assume that the model parameters are fixed over time, but rather that they may fluctuate. The authors show how predictions about the probability of losing a customer can be corrected by improving the way companies manage business risk and customer relationship management.

The mechanism for *collecting feedback* from customers is also one of the challenges of the CRM implementation process. This mechanism is in place and it is implemented through market research and focus groups, but the result is restricted due to the small size of samples and the insufficient frequency of research. It is therefore a challenge for insurers to develop an ongoing mechanism to receive feedback from customers, distributors and employees, allowing them to introduce products and services that address the needs of consumers.

Finally, it is necessary to create an integrated view on the customer information, across all units of the organization. Therefore the insurer must approach in a similar way the client, across its companies, departments and products. This system is also extremely important from the perspective of the risk, the insurer being able to observe the accumulation of risk in the case of a customer that uses multiple products of the company.

Given that properly implemented CRM systems are expanding in most of the company's areas it has been suggested that organizations should adopt a holistic approach and place CRM in its centre by targeting its strategy and all the processes directed towards the customers (Girishankar, 2000) . For Trepper (2000) CRM's conceptualization goes beyond the management system of a customer service department, bringing together operational, analytical and collaborative elements.

According to Newell (2000) consumers are most commonly divided into three distinct categories: the top, middle and the lower group. The top group (top 10%) consists of customers with excellent loyalty bringing high profits to the organization. The CRM system must retain these customers and provide them with the best services to prevent them from going to the competition. The middle group (the next 40 to 50%) are those who make large profits and have a potential to increase their profitability and loyalty. These are customers who are probably also working with competing companies. The CRM system must be used in this case to correctly identify the needs of this group, which is the main source of potential growth for any company. Customers in the bottom group (40 to 50%) have a minimum profitability. Some may have a growth potential but the costs and efforts involved to activate it are too high. Therefore CRM should be used in this case to identify this group and decide what the company should do with these people. This has the double advantage of improving the company's profitability prospects while probably unloading these burdens on the competition's shoulders.

6. Conclusions

CRM is a powerful tool, but it remains just a technology that cannot yield results by itself and it needs someone to know how to use it. Managers often used the CRM system to gather information about their customers and to be able to adapt their offer to the needs and desire of each client. Unfortunately adjusting the offer for a market segment which is too narrow can be extremely expensive and if the organization fails to effectively process the information it can be overwhelmed by too much information. No matter how well implemented, the customer relationship management system cannot replace a solid strategy, focusing on the client. In fact, such a strategy must already exist when implementing CRM. To develop such a client oriented strategy the company must first of all understand who the target customer is and for this he should answer some questions:

- What are your most profitable customers? What makes them profitable?
- Why do they buy from you and not from your competitors?
- What percentage from the total population in represented by these clients? Can you find more clients with the same profile?
- How can you determine these customers to buy more from you?
- How will you manage the less profitable clients in order to reduce the costs they imply?

The answers to the above questions are shaping what is called customer segmentation analysis. Until you understand who your profitable customers are you will not be able to use the customer relationship management system at its full capacity. The CRM system can help in many ways such as analysis of data related to costs and revenues of the clients, consumer behaviour related to products and services, identifying profitable customers and those with potential, but it cannot replace human labour which can develop a unique strategy for acquiring and building relationships with customers and retaining them on the long term.

We do recognize the limitations of our study, which essentially stand in the lack of a case study. However we consider the topic of customer relationship management very relevant in the field of insurance and we believe that this topic deserves a wider research on a really relevant sample, analyzing the way insurance companies manage to retain or lose clients by enforcing CRM strategies or by neglecting to do so.

Regarding the insurance industry it has been often accused of being reluctant to change. It must however be noted that this industry is built on the notion of risk management. Avoiding excessive risks, insurers make profit by investing the client's money and paying less than they receive, therefore the reluctance to risk is exactly the thing that characterizes them. The CRM implementation process, as well as all the requirements of such a large project, has been the main source of innovation in the insurance industry. In general, insurers have focused on four types of projects: optimizing the customer relation centre, sales force transformation, industrialization / automation of sales and monitoring of social networks.

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