Assurances

Assurances

Customer Service and Profits

Claude Bébéar

Volume 60, Number 4, 1993

URI: https://id.erudit.org/iderudit/1104917ar
DOI: https://doi.org/10.7202/1104917ar

See table of contents

Publisher(s)

HEC Montréal

ISSN

0004-6027 (print)
2817-3465 (digital)

Explore this journal

Cite this document

Bébéar, C. (1993). Customer Service and Profits. *Assurances*, *60*(4), 569–576.
https://doi.org/10.7202/1104917ar

Article abstract

L'auteur démontre l'importance du service à la clientèle dans le domaine de l'assurance et son incidence sur les profits. À cet égard, la fidélisation de la clientèle se mesure à l'aune de la qualité des services. L'auteur insiste sur la nécessité d'adapter les produits et les services de l'entreprise aux attentes des assurés.

Customer Service and Profits*

by

Claude Bébéar**

L'auteur démontre l'importance du service à la clientèle dans le domaine de l'assurance et son incidence sur les profits. À cet égard, la fidélisation de la clientèle se mesure à l'aune de la qualité des services. L'auteur insiste sur la nécessité d'adapter les produits et les services de l'entreprise aux attentes des assurés.

Introduction

Compared with most businesses, insurance has a special relationship to client service, since this is in most cases only delivered well after the related payment is made. Moreover, the service is generally delivered in strained -- or even inimical -- circumstances, when the claim is filed or the contract matures. Discord, it might be said, is at the heart of insurance. To complicate matters further, policyholders easily are lost in the meanderings of law and contract, since insurance products are legally complex packages in which what is implied often outweighs what is said. The value of the insurance cover is uncertain, its exact nature unclear and the commitments of the parties only indirectly defined. Policy coverage is mostly by default, consisting of what escapes the exclusion of painstaking enumerations and limitations. This obviously leaves the parties to a policy ample scope for differing interpretations.

---

*Permission to reprit this paper, which was presented at the International Insurance Society's 28th Annual Seminar in Toronto on July 8, 1992, has been granted by the International Insurance Society and the author.

** Président, Groupe AXA.

When a claim arises, the policyholder expects a great deal of the insurer -- who until recently has been concerned mostly with improving his ratio of premium income to claims. The client has not been the prime concern of insurers, as stressed in a report published by Andersen Consulting, entitled *"Insurance in a Changing Europe 1990 - 1995"* : "In individual business, the minimization of risk, not the client was the focus of management."

From Policyholder to Consumer

But change has come fast and gone deep. Insurance companies finally have awakened to the fact that policyholders are their customers and policyholders increasingly are shopping around, much as they do for traditional consumer goods. This new approach reflects both the growing sophistication of consumer choices in the developed world and the gathering momentum of competition within the insurance industry itself.

For seeing policyholders as customers has not come naturally to insurers. From their earliest days, insurance professionals have brought people together as a united group facing a common risk, making the individual policyholder a unit in a statistical series. Not surprisingly, the larger the series, the smaller the importance of each unit.

But here, as in other areas, the pace of social change has been swift. Insurance customers in the developed world are both better educated and better informed, and they live in a world which offers a relatively high degree of security, as well as a plethora of guarantees for that security. They judge insurance as they do other products, comparing rival offers and making the most of competition. And as the boundaries of national markets tumble, this competition has become increasingly international in scope.

Today's demanding clients are the object of a fierce global struggle between insurers. Yet just a decade ago, competition was at most lukewarm, since companies operating in expanding home markets protected from foreign contenders could count on a steady rise in earnings. Deregulation of prices, the emergence of new competitors and the opening of international boundaries have ended all that, fueling an unprecedented wave of competition. By the same token, these developments have placed the client at the center of industry concerns. Differences between products are disappearing slowly but surely, and price-cutting has gone as far as reasonably be dared. Against this backdrop, insurers have realized that the best way to defeat market share is to offer the very best in service and to abide by a strict code of professional conduct.

Service to clients is thus a core issue for us all, since it makes, and increasingly will make, the difference between the companies competing in any given market.

That said, the financial impact of a focus on service is hard to quantify. Clearly, the initial consequence is a rise in overhead; but the question remains whether it will generate longer-term gains. In the author's view, there can be no doubt that it will.

This belief is founded in the first instance on the common-sense observation that the cost of losing a good customer -- a loyal customer -- goes beyond the volume of business actually lost. Statistic back this up, demonstrating that a long-standing customer is also a profitable customer. Moreover, not only does the replacement of such a customer weigh on overhead, but also a new customer is an unknown quantity who may prove costly -- further proof of the advantages of customer loyalty. And service clearly plays a key role in winning this loyalty.

Customer Loyalty as a Measure of Service Quality

Customer loyalty is what links quality and earnings. It is measurable, and it provides a direct image of customer behavior. A variety of surveys have established a relationship between loyalty, earnings and growth. The findings of Bain & Company in this area are particularly interesting.

Based on an economic model, Bain & Company's report reaches the following conclusions in regard to insurance:

- claims decline in direct proportion to the age of policies,
- customers attracted by word of mouth are more loyal than those reached by salespeople or advertising and
- overhead declines significantly with a decrease in customer turnover.

In one case cited by Bain & Company, an unnamed non-life company could cut five full percentage points of overhead off premium income if it succeeded in raising business loyalty by then percentage points. In both life and non-life business in the US and Canada, renewal rates vary considerably from one company to another; but the correlation between this rate and earnings is almost complete.

The Demands of Today's Insurance Buyers

In view of the impact of customer loyalty on earnings, it is clearly essential to identify the factors influencing such loyalty and to draw practical conclusions. Customers appreciate or judge insurers at a variety of different moments in their relationship, most notably when they take out a policy, when the event they insure against transpires and when a claim is settled -- but also at other times during the life of the policy, even if no particular event takes place.

When customers take out a contract, they need to be properly informed, in particular, as to whom they should contact to file a claim. They also should be made aware of how they can best protect the person or goods they are insuring.

For obvious reasons, customers are frequently upset when they file a claim. The insurer can attempt to win their confidence and appease their worries, which will have an impact both on the cost of the claim and on the company image. Alternatively, the insurance company can act as a simple paymaster, meeting the claim to the full but failing to gain customer confidence. This is costly in the short run -- and may prove even costlier if it means the loss of a good client.

The rate to provide quality customer service is won or lost within a few hours from the moment a claim arises.

In the first place, success depends on avoiding conflicts. As we have already noted, potential for conflict is part and parcel of the insurance business. The basic type of conflict concerns the assessment of compensation due and the lack of assistance to the victim of an accident, theft, etc. In response to competitive pressure, many European insurers have designed innovative schemes to prevent such conflicts from arising. They work in accordance with a 90 to 10 rule, handling 90 percent of claims on a streamlined, systematic basis and tailoring responses to individual situations for the remaining 10 percent.

To give one some idea of how this works, let us look at the approach adopted in France by AXA. Insurance customers want solutions; they want the insurer to take the load off their shoulders -- not just part of it, but the entire load. In meeting this demand, and thereby avoiding the risk of conflict mentioned previously, AXA is guided by a number of key concepts: simplicity, prevention, delegation of authority, assistance, rapid response and freedom.

Simple policies

To put our idea in a nutshell, customer can be right; and we have pruned the hermetic legalese that usually clutters up contracts. This approach is exemplified by our "Ambiance" householder policy. Instead of spelling out all the possible areas of dispute, Ambiance offers global cover for a number of specified risks described in everyday language. The policy also sets out a clear description of how guarantees are applied, so that it is as much a user-friendly source of information as a legal document.

A particularly innovative feature of the Ambiance package is that it provides for arbitration by a special committee made up of senior AXA staff member whose experience ensures an added guarantee of fairness, as well as recourse short of litigation. In dealing with unexpected cases, its decisions have the force of precedent, and thus provide a useful guide to handling future claims.

Prevention

An interesting example of what is involved in preventing conflicts is provided by the appraisal of corporate assets for insurance purposes. AXA appraises the risk and the appropriate premiums at the time policies are taken out, arranging for half of the related costs to be borne by the company and bearing half itself. This offers advantages to both parties:

- Customers are guaranteed that they pay premiums proportionate to the value of insured assets and that compensation will not be disputed -- since it is based on an agreed value -- and will require only marginal adjustments.
- For AXA, the procedure means significant time-savings in damage assessment and fewer disputes, again because the amount of compensation is previously agreed upon.

Delegation of Authority

AXA's agents already have considerable latitude in settling claims; and we recently have tried some new procedures for non-auto claims which increase this authority further. For the mass of claims not exceeding $1,000, we enable the agents to handle settlement themselves on the basis of usual prices for the repair of damaged items. Compensation is based on costs actually incurred -- in fact, we even encourage people to do their own repairs.

This simplified procedure has advantages over the usual technical approach, from the point of view of both quality and company profits. Following initial successes, we now are planning to extend this program.

Clearly, for medium-size claims -- i.e., between $1,000 and $7,000 -- we prefer to send in one of our own specialist to strike a balance between customer and company interest; while in the case of big claims, we call on outside expertise.

Assistance

This means that we are working to substitute services for cash compensation. To take the example of car insurance, we have negotiated agreements with garages and car makers who carry out repairs for our policyholder. More generally, we try to provide policyholders with a list of approved businesses for repairs to goods and property, that they can be sure of rapid, quality service, while AXA can count on lower settlement costs.

Speedy response

Responding to a claim quickly is absolutely crucial for larger claims, whether for non-auto or accident insurance. At AXA we handle these with ad hoc teams composed of people with the required expertise in the fields involved, ensuring not only a speedy initial response, but also clear responsibility for all aspects of the claim and rapid remedies.

Freedom

This is the last -- but definitely not the least -- of our key concepts. The freedom of initial choice and the freedom to shift from one type of policy to another can make a significant contribution to customer loyalty. An example of what this means in practice is provided by life packages backed by financial products -- shares, bonds and real estate -- which the customer is free to modify at will. That said, in general our customers are attracted by such freedom, but make only sparing use of it. Experience shows that they are generally loyal both to their initial portfolio and to the company.

Conclusion

I summary, customers are now the object of a global struggle between insurance companies. This means that insurers must constantly measure their plans and actions against the yardstick of customer service. At every level of the corporate hierarchy and within each department, all those working in the insurance industry must contribute to provide the very best service and, in so doing, make their business more profitable.