

INSURANCE IS A SERVICE (25-1)

EO 1. INSURERS EXPERIMENT WITH QUALITY INITIATIVES when

1. there is an internal desire to improve the business *and/or*
2. external forces make quality improvement a necessity.

The Quality Revolution refers to the recent shift, across all industries, toward continuous improvement and to the realization that increasing quality increases customer satisfaction.

The three elements of continuous improvement:

1. customer orientation,
2. process improvement, *and*
3. employee involvement.

Continuous improvement is based on a new, strategic definition of **quality**, that of providing goods and services that completely satisfy internal and external customers by meeting their implicit and explicit expectations.

[Joseph Juran was an early advocate of continuous improvement.

His “Juran Trilogy” holds that continuous improvement results from

1. **quality planning**--which
 - a. identifies customers, their requirements, their expectations, and the processes that will deliver satisfactory products *and then*
 - b. delivers that information to the producing arm of the business,
2. **quality control**--which detects and corrects problems with the product, *and*
3. **quality improvement**--which ensures that quality can be achieved continuously.]

EO 2. CHARACTERISTICS OF THE INSURANCE PRODUCT (the policy and its coverage) AND THEIR INFLUENCES ON CUSTOMER SATISFACTION:

1. **Intangibility**--Consumers buy a promise that, given certain conditions, the insurer will perform in a certain way. Insureds can't either test or evaluate their coverage before buying it. They can't touch, taste, see, smell, or hear it. Yet, almost everything else we buy, we can both test and touch.
2. **Complexity**--Most consumers don't understand complicated policies. And, all policies are so complicated that their coverages are constantly being debated by agents and lawyers and being set by courts.
3. **Contractual status**--Policies are legal contracts. Policies prompt disputes that are resolved by courts.
4. **Unpleasant associated circumstances**--Before the loss, insurance is associated with the premium payment. After the loss, insurance is associated with the loss and the suffering.
- [5. **Long-term commitment**--Customers expect long-term service and advice after they buy.]
- [6. **Unique distribution relationships**--Agents usually aren't the insurer's employees. Agents tailor their service to meet customers' needs. Insurers develop products to satisfy both agents and customers.]

CUSTOMER SATISFACTION is difficult because buying insurance is

1. outside consumers' usual experiences,
2. confusing,
3. prone to legal disputes, *and*
4. associated with unpleasant events.

EO 3. **THE EIGHT BENEFITS OF INSURANCE:**

1. **payment for losses--indemnifying** (restoring) those who suffer loss.
2. **reduction of uncertainty**--so we worry less and get 'a quiet night's sleep'.
3. **control of losses**--resulting in fewer claims, smaller claims, and lower premiums.
4. **better use of resources**--so we save less (cash), but invest more (capital).
5. **support for credit**--without insurance, lenders wouldn't loan us money for our cars and homes.
6. **reduction of social burdens**--so we can take care of ourselves and not depend on welfare or charity.
7. **satisfaction of legal and business requirements**--so we can meet auto financial responsibility (**FR**), workers' compensation (**WC**), surety, and liability insurance requirements.
8. **investment funds**--Loaning unearned premium and unpaid loss funds to businesses promotes economic growth and job creation.

PERSONAL EXPERIENCES OF CONSUMERS don't reflect the full benefits of insurance because consumers

1. don't value or put too little value on each and every one of the benefits of insurance.
2. don't personally benefit from loss payment to others, **and**
3. don't perceive the personal benefits arising from social benefits.

Consumers value the payment of benefits most highly. But, even there, consider: Recently the average cost for auto insurance was \$891; the average insured filed no claim; and of the claims that were filed, since most claims are small, the median claim was only \$600. Insurance sure seems expensive compared to its benefits!

EO 4. **INSURANCE IS CLASSIFIED AS A SERVICE BECAUSE** performing its promise meets the **ten characteristics of services:**

SERVICE (the insurer performing its promise) [*according to Albrecht and Zemke*]

1. is produced when delivered,
2. can't be stored or stockpiled,
3. can't be tested, demonstrated, or sampled in advance,
4. can't be resold,
5. can't be recalled,
6. requires quality assurance **before** production, and
7. requires human interaction. **Customers assess service quality based on**
8. their personal experiences,
9. their personal expectations, **and**
10. the number of employees they have to deal with--the fewer, the better.

Quality assurance must take place before service delivery because low-quality service cannot be recalled or otherwise fixed. Customer satisfaction is likely to decrease as the number of employees involved in the delivery service increases because insureds who have to deal with several insurance representatives after a loss may feel they're being given the runaround.

Customers prefer quick delivery through a single insurance representative.

Robert Mehr describes insurance's reduction of uncertainty as the equivalent of a "quiet night's sleep". Insurance customers will only get a quiet night's sleep if they are reasonably sure their eventual experience of their insurance service will meet their expectations. That assurance is based on their insurer's reputation which is based on the collective personal experiences of its many customers.

Every time a customer contacts an insurer, there occurs a **moment of truth**, in which the customer discovers if his expectations will be met.

The insurer's goal is to satisfy every customer at every moment of truth.

EO 5. **The Quality Revolution**--refers to the recent shift, across all industries, toward continuous improvement, and the realization that increasing quality increases customer satisfaction.

Continuous improvement--includes these three elements:

1. customer orientation,
2. process improvement, *and*
3. employee involvement.

Quality--provides goods and services that completely satisfy internal and external customers by meeting their implicit and explicit expectations.

Quality planning--identifies customers, their requirements, their expectations, and the processes that will deliver satisfactory products, and then delivers that information to the producing arm of the business.

Quality control--detects and corrects problems with the product.

Quality improvement--ensures that quality can be achieved continuously.

Intangibility--describes the absence of physical characteristics; something is intangible if it cannot be touched, tasted, seen, heard, or smelled.

Moment of truth--occurs every time a customer contacts a business and discovers if his expectations will be met.

- Q+E 1. **Obstacles to customer satisfaction are posed by the characteristics of the insurance product:**
1. **the intangibility of the insurance product**--Customers can't evaluate a future promise before buying.
 2. **the complexity of the insurance product**--Customers don't understand policy coverages.
 3. **the legal status of the insurance product**--Legal contracts increase the potential for disputes that must be settled through legal proceedings.
 4. **the events associated with the insurance product**--Insurance is associated with personal tragedy.

Q+E 2. Albrecht and Zemke state that, for services, "quality assurance is required before production" because once service has been produced (rendered to the customer), it is too late to make changes, to withhold service, or to recall service that doesn't meet quality standards.
Simply, for services, **production is delivery.**

Q+E 3. Customer satisfaction decreases as the number of employees encountered during delivery increases because each handoff of the customer to another employee wastes the customer's valued time by increasing the number of people who hear his problem without taking responsibility for solving it.

- Q+E 4. **The benefits of insurance--and their recipients:**
1. **payment for loss**--the insured who suffers covered loss.
 2. **reduction of uncertainty**--all insureds substitute a small, known loss (the premium) for a large, potential loss.
 3. **control of losses**--all insureds who use loss control or would have suffered loss but didn't suffer losses thanks to loss control.
 4. **better use of resources**--all insureds and society.
 5. **support for credit**--borrowers and lenders.
 6. **reduction of social burdens**--socially responsible people, taxpayers, and those who give to charities.
 7. **satisfaction of legal and business requirements**--all insureds with insurance requirements.
 8. **investment funds**--growing businesses, their customers, and their employees.

Q+E 5. Mehr described 'the reduction of uncertainty' as 'a quiet night's sleep'. Consumers can instantly appreciate a quiet night's sleep even though it, also, is produced when delivered, can't be stored or stock-piled, can't be shown or sampled in advance, can't be resold, and can't be recalled. Further, customers will assess its value based on their personal experiences and expectations. But, some people, those who don't tend to worry, won't put much value on the improvement in their 'quiet night's sleep' as a result of their buying insurance.

Q+E 6. **Consumers should be informed of the benefits of insurance (EO 3)** so they can appreciate all its benefits, not just those they experience personally.

Q+E 7. **Most insureds think of insurance as providing a single benefit:** the payment of covered losses.

Q+E 8. **Insurance is intangible because** it is a promise of performance that can *not* be tested or sampled until it is needed -- after a loss.

Q+E 9. Every time a customer contacts an insurer, there occurs a **moment of truth**, in which the customer discovers whether his expectations will be met.

Q+E 10. **Insurance is classed as a service because** it is intangible.

FINE 1. Printed or computerized sources of information that would help convert minus signs to 'ok' or '+' signs include insurer manuals, personnel directories, lists of co-workers and their specialties, and customer files.

FINE 2. Training sessions or educational courses that help convert minus signs to 'ok' include both on-the-job technical training and outside continuing education, such as the INS, the CPCU, and AIS 25.

FINE 3. Misdirected calls can be eliminated by notifying the receptionist or the person or department who misdirected the calls that I was unable to help our clients.

BYGO--Immediately memorize the seven benefits of insurance as presented in EO 5 and again in Q+E 4, since that will help you on your exam and help you help others to appreciate your work and our industry.