

**STRATEGY FOR IMPROVED DELIVERY
OF INSURANCE SERVICES IN AFRICA**



A paper prepared by Rasik H. Patel for the
**ORGANISATION OF EASTERN & SOUTHERN AFRICA
INSURERS**
on the occasion of the OESAI AGM & Seminar in ENTEBBE,
UGANDA

17th to 20th July 2001

STRATEGY FOR IMPROVED DELIVERY OF INSURANCE SERVICES IN AFRICA

By Rasik H. Patel

Mr. Chairman, Distinguished Guests, Ladies and Gentlemen:

When I was asked by Mr. Solomon Rubondo, the Chairman of the National Organising Committee of this august gathering, to speak to you on a topic they had chosen for me, I had agreed to do so with some trepidation. I was fearful of two possibilities. One of them was my own ability to write a paper on such a wide topic. The other, more importantly, was whether my commitments would permit me to travel to Uganda to deliver my paper in person to so many of my friends attending this seminar.

Regrettably, although I have now managed to put my thoughts on paper, albeit in a discussion form, it seems that my worst fear has been realised and the paper will have to be presented by someone else. I daresay it could turn out to be a blessing in disguise, as I am sure that the person presenting it will be the person I know to be far more knowledgeable than I at this subject.

Ladies and gentlemen.

Insurance is a service-oriented product. It is intangible and the **policy document**, which is evidence that a contract is in place, is intrinsically worth little, although representing substantial value. This is true for the life insurance product but not for the general insurance product. In both cases, however, it is at the time of a claim when the true **value** of an insurance policy can come to the fore.

Whilst the topic under discussion is wide in scope, time constraints advocates that we focus on improved delivery of insurance services as they relate to life insurance, with the view to integrating the relevant aspects of general insurance when appropriate. Further, it is to be noted that insurance services include services offered by agents, brokers, loss adjusters, fire inspectors and risk surveyors, risk management, claims advice and training of relevant staff of corporate clients by brokers. These services not only apply to insurance but also to reinsurance. The discussion will therefore focus on life insurance mainly and the delivery of the services associated with this line of business.

It was more than two hundred years ago that the “**delivery**” of a life insurance policy formed part of the legal requirement to bring the contract of insurance into force. At this time the agent would usually explain contractual details and answer questions posed by the insured. This was the main item of service performed. We have moved a long way from this situation to the extent that the issue of a policy is now usually considered as “prima facie” evidence that a contract of insurance is in existence, and **delivery** is no longer considered a legal requirement to bring a policy into force. There is also a subtle difference between the **customer** and the **consumer**. The customer, for insurance purposes, is the **insured** whilst the consumer is the **prospective client**. The customer can also be a consumer of other products offered by the company with which he already has a product. Services are provided with this difference in mind. However, from the point of view of the consumer, it is the

marketing strategy of the company which will determine whether the company acquires new consumers of life insurance.

Strategic Marketing

Advertising, sales promotion and selling are the tools of marketing. These activities are the tactical manoeuvres of the company. Strategic marketing attempts to meet the needs of the consumer by employing the resources of the company with the view to making a profit. It relates to corporate image and communication, product design and pricing, distribution, advertising, skills and capabilities of personnel, both in-house and in the field, and the company's organisational structure.

In formulating the strategy there are certain other aspects that need to be considered and these relate to the identification, development and integration of the company's mission, its brand and positioning. When these aspects are brought together the company can acquire and sustain a competitive edge giving it an opportunity to attain higher profits and volumes of sales, customer retention, and brand loyalty, whilst generating economies of scale.

The mission of the company must stimulate excitement and enthusiasm about what it is doing. Brand is an important factor which assists the company to sustain a competitive advantage. It is the gravitational centre around which product, marketing mix and price revolve. It is not merely a logo or a name,

but an expression of value and quality and can provide a competitive difference.

The mission and brand of a company, its products and services affect its positioning, which in itself also relates to understanding the various customer groups in the market, i.e., the market segments.

If mission, brand and positioning are combined, a direction for the strategic marketing plan is established and these are the principles underlying a company's corporate policies and practices. The plan assumes the authority to make key decisions related to advertising, product design and price, promotion, staff skills and capabilities, service standards and other policies.

It is pertinent to note here that the topic under discussion relates to the improvement in the delivery of insurance services. This is virtually the end point of a company's marketing strategy. However, the steps heading up to the delivery of services start with the company having a strategic marketing plan which will encompass the delivery of services. The formulation of such a plan has been discussed. It is now necessary to elaborate on specific and relevant parts of the plan that lead to the delivery of the services.

Within the strategic marketing plan there are three major components, each of which, although integrated and interrelated, plays a significant role to guarantee the success and the effectiveness of the plan. These three

components are the company, its personnel and its products. After discussing these briefly we will look at the customer and/or the consumer, and attempt to ascertain the impact that the strategic marketing plan should have, if the ultimate goals of customer satisfaction and retention are to be achieved. It could be said that in order to attain such goals, quality services and their delivery must be one of the underlying objectives of the company.

The Company

The financial services market is evolving at a rapid rate. Globalisation of the world's economies is in full progress also. Traditional boundaries that once separated insurance companies from banks are increasingly becoming obscure. The Internet provides the consumer with a tool to shop internationally beyond the boundaries of his/her own country. It is in such an environment that companies must now operate. There is fierce competition among the various sub sectors of the financial services and thus marketing is critical.

This demands an awareness and appreciation of customers' needs and what the consumer wants in terms of products and services. It also needs customer management, since a company will increasingly face a customer with a wide variety of financial needs. The company must become market oriented, and to enhance the marketing function, staff resources must reflect this approach. Undifferentiated marketing is a thing of the past and the goal of the company

is to achieve targeted market. New product development and introduction must be geared to new opportunities in the market place. There must also be investment in promotion and consumer research.

Besides the foregoing the company has to be sensitive to fundamental legislative changes, changes in consumer attitudes, deregulation and structural changes within financial institutions themselves. In a liberalised market there is also the admission of new entrants to consider. However, all the foregoing considerations should be geared towards making customer satisfaction the centrepiece of the company's aspirations. Execution of the strategic marketing plan requires dedication and skill from top management.

Personnel

For insurance companies, the human resources or personnel can be divided into two major sections. These are field personnel and in-house staff. Whilst there is this division it should be noted that each section should complement the other with the objectives of customer satisfaction in mind.

The discussion following will deal firstly with the field force and then with in-house personnel. In dealing with the field force the discussion must necessarily touch upon distribution systems and how services are delivered.

Field personnel

The agency system for the distribution of insurance products is a tried and tested system in operation for one hundred years. However, improvements in technology and telecommunications have had a major impact on the system by providing for other methods of distribution. For life insurance, personal contact is still the most potent method in the selling of life insurance products. Liberalisation has also had its effects since new players, especially banks, are entering insurance markets. Additionally, new insurance company entrants (both local and international) create enhanced competition, with the entrants particularly bringing their expertise and their experience to bear upon the local market.

Where there are nationalised insurance markets and liberalisation of such markets is imminent, a thorough study of present distribution systems and how liberalisation will change the market place is vital, because these markets are moving from one where competition was non-existent to one in which there would be seasoned players seeking to establish market position. An example of such a situation is India, where the Government appointed Malhotra Committee concluded that **need-base selling** and **post-sales service** to Policyholders were inadequate. This is a legacy of the pre-liberalised market, where the lack of transition can be attributed to the lack of training

and professional qualifications, which are the basis of delivery of improved services.

In many developing countries much of the training and professional qualifications are geared to the employees of the insurance company, rather than the insurance intermediary. In some countries a state examination for the registration of agents and salespersons is the only requirement for selling insurance. Since insurance markets are changing dramatically it is necessary that the intermediary seek more than the requirements for registration. Not only does product knowledge need to be taught, but the intermediary needs to have more than just a basic understanding of several aspects of financial services, including concepts and legal issues, that are associated with the markets in which they operate.

Brokers have not been mentioned as yet but they play a pivotal role in developed markets, and there is no reason why this should not be the approach for developing markets which have liberalised. Brokers are challengers to the agency system, especially where general insurance and employee benefits are concerned. Brokers compete with general insurance intermediaries for the corporate and large industrial business, and with other brokers. This form of competition is intensive as brokers attempt to outdo their competitors by providing services which include risk surveys and analysis, risk management advice, training, technical advice, claims handling

and so on. As a consequence, for much of the larger accounts the broker is more equipped than the individual agent to preferentially attract the business.

One other aspect to consider is the role played by laws which regulate the practice of intermediaries. Most of these laws are meant to protect the consumer. Laws, as they relate to the intermediary, should have as their objective the development of intermediaries into customer advisers. Some issues to address in this regard are as follows:

- Licensing of agents
- Qualifications that the agent should have if he/she is to take up this profession
- Training in technical aspects of insurance
- Assessment of compensation systems and laying down guidelines for such systems
- Code of ethics
- Evaluation of performance, persistency rates and consistency

We shall now look at the role of the in-house personnel in ensuring that quality services are delivered consistently and continuously.

The job of every employee in an insurance company affects the customer. It has been said that the quality of relationships between and among employees affects the customer. The cultural environment of the organisation is very

important in the delivery of customer services. Poor service means poor management. An organisation that does not care about its employees is rarely competent or qualified to deliver customer satisfaction although this may be its ultimate goal. It is the professionalism, competence and attitude of the employees that will determine the quality of the services that the organisation provides, since they are the most visible aspect of service quality. An employee is the link between the organisation and the customer as he shapes the company's image.

Employees should be trained and motivated to be dependable and responsive to the customer's needs. They should be good communicators, learn to listen and care for customers. A caring attitude is essential. An employee, who cares less for the organisation, cares even less for its customers. Employers should instil corporate pride and loyalty in their employees.

Besides the foregoing an employee must not only be competent but must be seen to be competent. Competency is linked to appropriate training for the particular job. To achieve organisational objectives, training programmes (whether from within the company or external to it) must provide the necessary skills and knowledge required by the various departments of the organisation. In this regard the training functions must undertake the following:

- Work closely with department heads to determine their training needs
- Design tailor-made training programmes for specific needs for job performance and individual development
- Provide training for all levels of the organisation
- Identify relevant training resources from both within and external to the organisation
- Identify and recommend suitable external courses for maximising staff development for the future
- Seek management support for post training evaluation to determine the impact of training

The foregoing implies that the company has in place a human resource plan. Such a plan attempts to ensure that the right numbers and the right type of skilled people are available to apply the right skills needed to achieve the strategic objectives of the organisation. Such a plan is put in place at different levels of the organisation. In formulating such plans the organisation is being proactive.

Training should be continuous so as to ensure that employees are updated with the knowledge required to keep in step with the on-going changes in insurance, both locally and internationally. Training should also include product knowledge. An employee should be familiar with his or her

company's products; otherwise in dealing with customers he or she would be ineffective.

The Product

Today's traditional products are most commonly a combination of several different product qualities. To meet the increasing demands of today's customers, products should be modularised in such a way that they are cost-effective as well as "individually" designed to meet the various customers needs. Such modularisation will facilitate product innovations and make it easier to implement necessary changes that arise. Modularisation will enhance sensitivity to the changing market, so that the time to market a new product is considerably reduced. The uniqueness of the customised product is that it strengthens the relationship between the customer and the company. The breaking up of products will also give the company an improved basis for calculating product cost and profitability. Further, a more diversified approach towards the customer will increase the possibility of learning more about the price sensitivity in the various market segments.

In discussing products one must necessarily touch upon pricing, fairness as to terms and conditions, all of which must be considered in the context of the legal environment in which the product is to be sold.

If the value of what a company sells is perceived to exceed the price paid, then the single most important basis for customer satisfaction is created. Unless value exceeds price there will be no satisfaction. Moreover, as an insurer, perception of the product's **value** to the customer is equally important.

Insurance products in many countries have to be approved by the country's regulatory authorities to ensure fairness to the customer. Policy terms and conditions, pricing, commission structure, non-forfeiture options etc., are all assessed so that the consumer of insurance has some protection from the state. However, the points mentioned before must be taken into account for products in such regulatory climates.

The Customer or Consumer

What does a customer look for from his insurance company? Professional competence, responsive service and empathy. What is a satisfactory service from an insurance company's point of view? Is the customer always right?

The customer has the right of obtaining professional assurances to purchasing a service at a fair price and a right to complain, should there be a deficiency in the products and services. It is the insurers' responsibility to offer at all times a convincing and courteous explanation, should they be unable to fulfil the expectations of their customers.

Dealing in commercial transaction by any company will have the customer at its centre of gravity, a focal point at which all the forces within the company will concentrate. Any business, which does not take adequate care of its customers, will eventually become derailed and in the course of time will be out of business. The success of any organisation depends on how well it manages its customer relationships and also how harmoniously it blends its internal operations with this end in view. However, mere preoccupation with internal operations will lead to insensitivity and unresponsiveness to customers, whilst indulging in external affairs alone without proper and sufficient in-house management will render a company unable to meet the increasing complexity of customer needs.

Quality services and their delivery

The quality of the services offered by a company is the key to customer satisfaction and retention. In the case of most goods the consumer can search for the quality before the point of sale, whilst with certain other goods the quality has to be experienced after the purchase. However, in the case of services, people rely on credence derived from factors such as word of mouth, physical facilities at the service point, delivery, personnel etc. This makes the quality aspect multi dimensional. Quality is ultimately defined by how the customer perceives and defines it not by what the seller assures. This

therefore demands an understanding of the dominant attributes that customers take into account in judging quality.

In any attempt to provide quality service a company should set out service standards. Such standards should be stated clearly in writing and should be formulated from the involvement of all personnel involved. Of course standards in the context of quality service should relate to the requirements of customers. Management must also be seen to be committed to the standards and any deviation from them should be regarded as unacceptable. Standards have to be communicated and regularly monitored. Quality service standards are important because they establish goals that can be achieved through teamwork. They can also assist management in recruiting and selecting personnel, job design and job specification, training and development and performance appraisal.

Quality service means meeting or exceeding customer expectations. In order to deliver a quality service, the Service Standards should effectively address the issues of:-

- Reliability
- Responsiveness
- Competence
- Access
- Courtesy
- Communication
- Credibility
- Security
- Understanding the customer
and the
- appearance of the service environment

Whilst it is not possible at this time to look at each of these dimensions, perhaps we can look at a few.

“Communication” suggests the importance of consumer education. It is not possible to help people achieve financial security without delivering knowledge about financial security. Information provided for the consumer should be wider in scope and not just confined to a product. The goal here is that the consumer will feel that he can turn to a company and its representative to obtain help and information on the financial security aspects about his life or property.

As regards the "Access" dimension, a major frustration for customers is not knowing who to call in an organisation. For an insurance customer dealing with an agent this may often not be a problem, since the agent is the one the customer will first think of calling. But the access dimension strongly suggests the value of having a single toll-free number that customers know to call when they have a problem or a request, and either their agent is not able to help them or they do not have an agent. Of course the company representative at the other end of the line must have the information and resources to the customer's needs and be able to co-ordinate all activities until the customer's problem is solved or the request fulfilled.

Other aspects of good value

Another driver of customer satisfaction is good value, which is a product or service obtained at low price relative to its quality. Value can be improved by reducing costs so as to be able to lower price, or by improving quality.

New distribution systems such as the Internet, telemarketing, worksite marketing can have lower distribution costs. Direct marketing has had considerable success in Europe, particularly with personal lines insurance and now with life insurance. These types of alternative distribution channels should not be seen as a threat to a company's agency force. In fact additional distribution systems can support an agency system to supplying leads or providing new products.

Technology can help improve services and expand market research and can play a very important role in reducing costs. Technology can also increase administrative efficiency through such means as teleservicing and artificially intelligent underwriting.

It is important to remember that cost is only one of the two essential elements of value. Customers are often willing to pay more for a product that they perceive has greater worth in terms of service reliability. The customers that share this view are the ones that should constitute the core of an insurer's customer base, especially given that policyholders who buy insurance based largely on cost are likely to be less valuable in terms of future sales and less loyal.

Trust, the foundation of good relationships is built on two pillars, financial soundness and ethical integrity. Customers place great value on long-term financial soundness. Life insurance policies in particular are unique in the potential length of the customer relationship. Financial soundness means more than just a strong balance sheet, it also means good prospects for strong profitability.

Integrity is a fundamental ingredient of trust. It is living up to commitments and not taking advantage of a customer's ignorance. It is good business and the right thing to do. A company must continuously demonstrate its integrity.

A good example of one of this is to call customers after they purchase a policy to determine if the product was appropriately described and if they received sufficient and accurate information. The call is also an opportunity to receive feedback on other aspects of customer service or needs.

Providing value and satisfaction means meeting customer needs with professional advice and the appropriate financial products. Customers are becoming increasingly sophisticated with a greater knowledge of insurance and investment options. At the same time financial services are being deregulated worldwide increasing both the number and availability of financial products. Insurance companies have particular expertise in providing the sound financial advice with the greater variety of more complicated financial products available. But it is nonetheless true that if insurance companies do not meet customer needs other companies will. Bancassurance has become widespread and in Europe even department stores and airline companies are starting to sell insurance!

Understanding customer needs (which are continually changing with age and lifestyle) customers' values and priorities requires a significant investment in time and effort. Many insurers know less about their customers than they might because they leave most policyholder interaction solely to agents. This practice no longer makes sense since in many cases the home office can provide better service and do so more cost effectively, and in the process obtain information on their customers' needs.

An obstacle to understanding customer need is that many insurance companies have traditionally recorded information on a product basis, and not customer nor householder bases. The goal is to have a corporate memory of the full relationship and experiences a company has had with customers. This would be advantageous to the image of the company as it would project itself as a single responsive company rather than a collection of independent lines of business.

In conclusion, Ladies and Gentlemen;

We have looked at several aspects of the ways to **improve the delivery of insurance services** in the foregoing discussion. It can be concluded, therefore, that the traditional approach, whereby the point of delivery marked the **end** of the process for **the seller**, is in reality the **beginning** of yet another stage for **the buyer**. According to Theodore Levitt "**the sale merely consummates the courtship. Then the marriage begins**". The reciprocal dependencies of the parties to the transaction determine the intensity and warmth of the relationship.

Thank you for your attention.