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## Customer Loyalty to Insurance Companies

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## CUSTOMER LOYALTY TO INSURANCE COMPANIES

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Key words: customer loyalty, insurance services, quality, satisfaction, insurance companies.

### Abstract

Loyalty of customers in the insurance services market is determined by numerous factors. The factors with the highest share in building loyalty attitudes include the offer conditions, credibility and confidence in the insurance company and premium amount. The location of the insurance agency, on the other hand, has the lowest influence on the loyalty of the customer to the insurer.

## LOJALNOŚĆ KLIENTÓW WOBEC TOWARZYSTW UBEZPIECZEŃ

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Słowa kluczowe: lojalność klientów, usługi ubezpieczeniowe, jakość, satysfakcja, zakłady ubezpieczeń.

### Abstrakt

Lojalność klientów rynku usług ubezpieczeniowych jest determinowana przez wiele czynników. Do czynników mających największy udział w budowaniu postaw lojalnościowych można zaliczyć: warunki oferty, wiarygodność i zaufanie do zakładu ubezpieczeń oraz wysokość składki. Najmniejszy wpływ na przywiązanie do ubezpieczyciela ma lokalizacja placówki.

## Customer loyalty

Loyalty of clients in the market manifests through their specific behaviors and attitudes; it is the feeling of ties connecting the client and the firm. As a consequence, a loyal customer is one that makes regular and repeated

purchases, is resistant to the activities of competitors, is characterized by low sensitivity to price change and recommends the company to other people.

The differences that exist in the development and expression of loyalty of customers to enterprises offering services and material goods should be remembered (URBAN, SIEMIENIAKO 2008, pp. 29–30). Material products can be investigated by the client using his senses as they are defined precisely already on purchase. Purchase of services involves a higher risk because of the characteristics of services such as intangibility, diversity and (generally) inseparability of the service from the service provider. Additionally, in case of services, the customer also bears much higher risk of a change of provider because of the higher costs. The limitation of choice possibilities influences the difficulties in taking the decision concerning change of the service providing company. “The potential buyer of services, as opposed to the buyer of material goods, cannot compare the offers in one spot and at one time. Clients of service companies are characterized by higher propensity for loyalty as compared to the buyers of material goods” (RUDAWSKA 2005, p. 45). As a consequence, service enterprises, which also include insurance companies, have much better opportunities to achieve a higher level of loyalty among their customers than the companies offering material goods.

The importance of loyalty of customer using insurance services is high. Insurance as a service is characterized by intangibility, lack of uniformity and impossibility of storage. The buyers of the service are looking for a material confirmation of the quality and as a consequence recommendations and references become extremely important for them. Observation of the trends in the insurance market in Poland leads to straightforward conclusions. Year by year competition among insurance companies increases, the requirements of clients concerning prices, distribution and quality of service increase, which makes it increasingly difficult for insurance companies to win new customers, retain their current customers and build long-term relations with them. As a consequence the analysis of consumer needs, surveying the level of their loyalty and factors determining loyalty to a given brand is so important (WITKOWSKA, NIEŻURAWSKI 2007, p. 380).

It is worth to consider the characteristics of a loyal attitude of the client in the insurance services market. Loyalty of an insurance company customer is the propensity to purchase insurance products from only one insurance company at a specific time. The customer makes insurance contracts with one insurer and on expiration of those contracts renews them. In addition, the customer expresses positive opinions about his insurance company, encourages friends to use its services. It should be noticed that a different level of loyalty to the company characterizes every client in the insurance market. As a consequence the customers should not be treated in the same way. The

important thing is to segment the market according to the loyalty of the customers to a given brand, i.e. in the context of diversified types of loyalty.

Loyalty of the customer to the insurance company was defined as propensity to purchase insurance services of one insurer, low sensitivity to premium increase and wide recommendation for the customer's insurer.

Considering loyalty to the products of the company and the fact of making further, repeated purchases we can identify four types of loyalty: no loyalty, passive loyalty, hidden loyalty and exceptional loyalty. Analysis of the attitudes and behaviors of that type is particularly important because of the possibility of comparing it to the insurance services market.

Lack of loyalty characterizes the customer who makes purchases rarely and whose loyalty to the insurance company is low. The costs of winning that type of buyers are incompatible to the benefits that they may offer (RUDAWSKA 2005, pp. 29–30). That group consists of the so-called occasional clients, i.e. people, who make a single purchase of the insurance policy. They are characterized by lack of the feeling of loyalty to the insurer.

Passive loyalty means that the customer does not care which insurer he uses, but still uses its services. The factor determining such behavior is, in most cases, convenience or a custom. This type of loyalty frequently concerns the brand that has a very long history in the market and changing it involves certain inconvenience. Passive loyalty frequently characterizes clients of companies that previously used to hold the monopolistic position in the market and have retained a strong position in it until the present day (e.g. PZU S.A., Warta S.A.). In case of the insurance market the customers characterized by loyalty of that type will be ready to move to a competitor if offered favorable conditions (e.g. lower price).

The situation involved in making a long-term life insurance contract may be another example of passive loyalty. The client decides for that option only and exclusively on demand by the bank, as the policy purchased is to be one of the securities for the mortgage loan. The customer remains loyal to the given insurer because he assumed the liability for yearly renewal of the policy. The necessity to pay the insurance premium for long years until payoff of the loan is the only reason for qualifying that customer as a loyal one.

Hidden loyalty means that the customer feels loyal to his insurer but rarely makes purchases of insurance services. That behavior is in most cases caused by various situational factors and has nothing to do with unwillingness of the customer, e.g. the situation of a student that uses services of one insurer, however, the university at which he studies requires him to purchase accident insurance from another insurer of which it is a customer. As a consequence, although the student feels positive ties with his insurer, he uses services of the competitor, as a consequence of which achievement of full loyalty is impossible.

Financial limitations are the most frequent cause for making rare and irregular purchases by customers characterized by hidden loyalty. Despite the feeling of strong ties to their insurer their financial potential limits purchase of insurance services to the compulsory insurance only. Nevertheless, it is worthwhile to maintain good relations with those clients. In the future, their material situation may improve significantly and then their earlier positive experience will result in increased purchases. Additionally, that group of customers is considered not excessively demanding and as a consequence servicing them is much cheaper and simpler.

Exceptional (true) loyalty means the customer attitude in the highest demand among insurance companies. That behavior is characterized by high loyalty to the insurer frequently combined with repeated purchases. Strong ties with the insurer manifest not only through frequent purchase of its products. Customers characterized by exceptional loyalty recommend their insurer to other persons and less frequently consider proposals from competitors. The loyalty to the insurance company results from the positive remembrance of the earlier actions taken by the consumer. Using services of a given insurance company should be long-term in nature, planned and not incidental to develop that type of loyalty.

Conscious choice of the consumer, not resulting from an accidental decision, lack of alternative offer or all types of "entry barriers" characterizes the exceptional loyalty. The consumer compares the insurance proposals together with the general conditions of different insurance companies and next chooses the one that satisfies his expectations the best. The process of selecting the offer preferred by the buyer leads to establishing a relation that is based on the high level of satisfaction. Satisfaction of the customer is created when his expectations are fulfilled that is he is supplied with services satisfying his needs. "That is why the activities of insurance companies should be focused for the future, cover many aspects and, first of all, be focused on the actual needs of the clients. Appropriate satisfaction of customer needs and insurance services quality satisfying the customer will allow insurance companies retaining their clients" (WITKOWSKA, NIEŻURAWSKI 2007, p. 388).

Customer satisfaction is highly important in building loyalty of the buyers. Increase in the buyer satisfaction has significant influence on the level of loyalty and increase in the recommendation proliferation index (STODOLNY 2008, p. 32-33). Satisfied customer is an immensely precious "tool" of promotion; that is why conclusions from the presented regularities should attract particular attention of the people responsible for marketing activities of insurance companies.

Thanks to collection and analysis of the information on customers, establishment of databases of the insurance company clients, they may achieve

significant advantage over competitors. „Knowledge acquired in that way allows attainment of numerous targets desired by entrepreneurs, including the insurers, such as maintaining loyalty of the customer, increasing its value over time and improving the quality of service as well as facilitating access to the offer of a given company” (KONARSKI 2010, p. 12).

### Results of studies

Determining the level of loyalty as well as defining and setting the hierarchy of the factors influencing customer loyalty in the insurance services market was the goal of the study. The survey used the Internet questionnaire that was completed by 131 respondents.

In the survey, women represented 51% of the respondents and men 49% (Fig. 1). Young people aged 18 to 24 years were the most numerous group of the respondents – 33.6%. The other dominating group consisted of people aged 45 to 54 years – 29.0%. People aged 25 to 34 years and 35 to 44 years represented

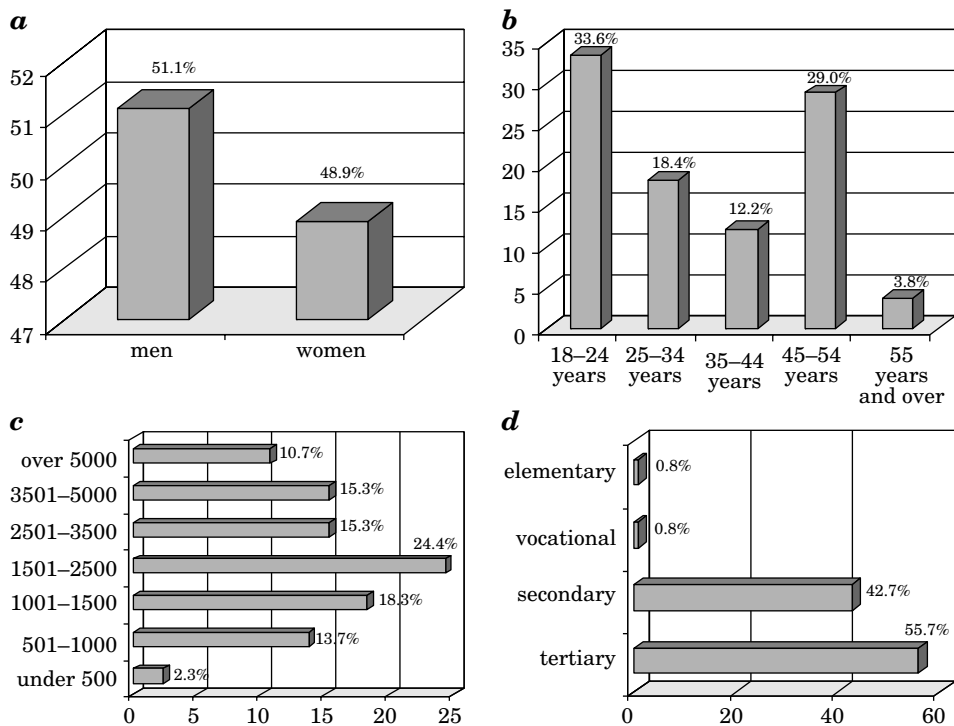


Fig. 1. Structure of the respondents: *a* – Gender structure of respondents, *b* – Age structure, *c* – Income structure, *d* – Education structure

Source: Own work based on the survey.

18.4% and 12.2% of the respondents. More than a half of the respondents possessed tertiary education (55.7%) while 42% of the respondents were people with secondary education. In case of one fourth of the respondent the household income per household member was between PLN 1501 and PLN 2500.

The studies focused, first of all, on the length of collaboration of the customer with the insurance company (Fig. 2). More than 22% of the respondents declared the time of collaboration with their insurers exceeding 10 years. A similar group of respondents declared the relation with the insurance company lasting from 3 to 5 years.

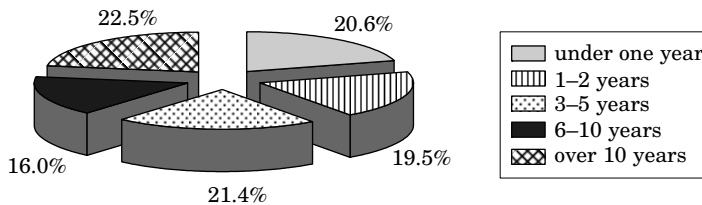


Fig. 2. Length of collaboration with the insurance company

Source: Own work based on the survey.

Loyalty divisibility, which provides information on how many insurance companies the customers used during the given period is an important factor from the perspective of loyalty measurement (Fig. 3).

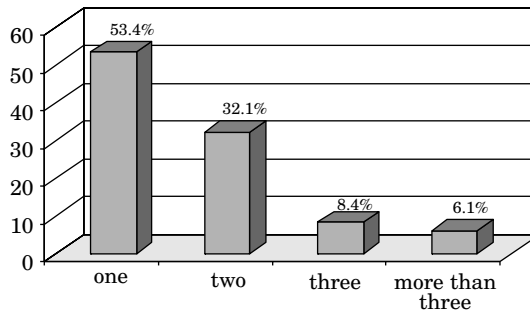


Fig. 3. Loyalty divisibility

Source: Own work based on the survey.

The offer of one insurance company only was used by 53.4% of the respondents. One third purchased insurance from two insurers while over 14% of the respondents declared using services of three or more insurers.

Almost 50% of the respondents declared remaining in relation with the current insurer. Definite lack of interest in changing the insurance company was expressed by 18% of the respondents while only 1.5% were determined to change the insurance company in the near future (Fig. 4).

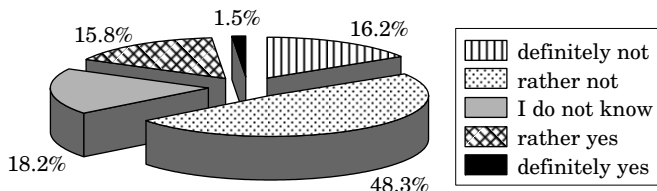


Fig. 4. Propensity to change the current insurer

Source: Own work based on the survey.

Studies conducted by many scientists indicate certain regularity: the more the client is satisfied with the services and products the less sensitive he is to the price increase. The survey considered 5% and 10% increase of the insurance premium (Fig. 5).

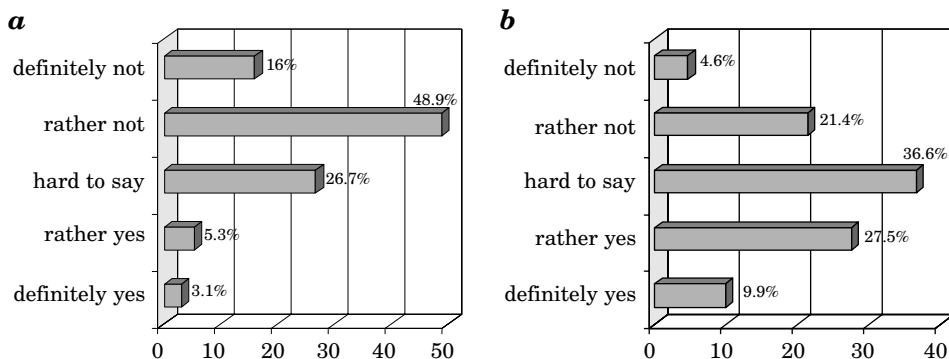


Fig. 5. Price sensitivity of clients: a – 5% price increase, b – 10% price increase

Source: Own work based on the survey.

In case of the premium increase by 5% almost a half of the respondents declared loyalty to the current insurance company. On the other hand, 16% would definitely change the insurer. The situation looks different in case of 10% increase in price as 26% of the respondents declared that they would definitely or rather not change the insurer. However, in case of the premium price increase by 10% over 27% of the respondents would rather resign services by their current insurance company. This indicates that customers purchasing insurance services are much less tolerant to the 10% increase in the premium price.

The level of satisfaction with the current collaboration with the insurer represents another important component in loyalty measurement (Fig. 6). Determination of customers satisfaction will allow further and more in depth analysis of loyalty behaviors. The vast majority of the respondents (almost 72%) were satisfied or highly satisfied with the current collaboration while just over 19% were dissatisfied with it.



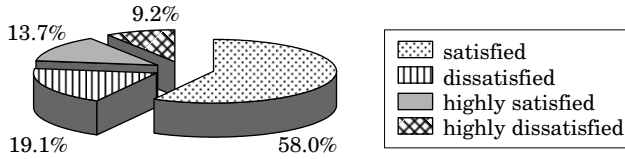


Fig. 6. Level of satisfaction with current collaboration

Source: Own work based on the survey.

Customer satisfaction influences customer loyalty, which manifests in the recommendations by customers. The survey indicated that over 54% of the respondents recommended more than once their insurer to others while 36% of the respondents had never done that yet (Fig. 7).

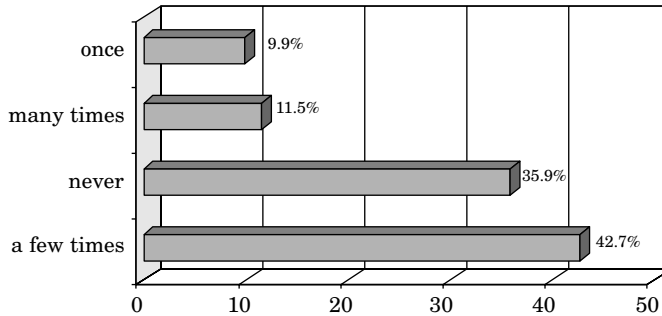


Fig. 7. Frequency of recommendations given

Source: Own work based on the survey.

Based on the literature and earlier studies the factors that influences loyalty of customers using insurance services were defined as:

- service quality;
- offer conditions;
- credibility and confidence in the insurance company;
- premium level;
- location of the insurance office.

Next the respondents were asked to rank the influence of individual attributes related to providing insurance services on continuation of collaboration with the insurance company.

Offer conditions were the factor with the strongest influence on the loyalty to the current insurer (Tab. 1). Almost 56% of the respondent pointed out that factor as the factor of decisive importance. The credibility and confidence in the insurer was the next ranked factor indicated by almost 52% of the respondents. Also the level of premium was very highly ranked by the

respondents Almost every second respondent answered that this factor was of decisive importance for further collaboration with the insurance company.

For 29% of the respondents service quality decides about further relations with the insurer while office location was important in case of 8.4% of the respondents.

Table 1  
Factors influencing loyalty of customers using insurance services

Offer conditions			
Are of decisive importance	are of importance	are of minor importance	are of no importance
55.7%	35.9%	2.3%	6.1%
Credibility and confidence in the insurance company			
Are of decisive importance	are of importance	are of minor importance	are of no importance
51.9%	37.4%	5.3%	5.3%
Premium level			
Are of decisive importance	are of importance	are of minor importance	are of no importance
43.5%	46.6%	6.1%	3.8%
Service quality			
Are of decisive importance	are of importance	are of minor importance	are of no importance
29.0%	54.2%	13.0%	3.8%
Office location			
Are of decisive importance	are of importance	are of minor importance	are of no importance
8.4%	33.6%	36.6%	21.4%

Source: Own work based on the survey.

## Conclusion

On the base of the conducted studies it can be concluded that a relatively high level of general loyalty characterizes the customers of the insurance services market. Undoubtedly the specificity of those services has significant influence on both the strength of ties as well as the type of factors determining them. Offer conditions, credibility and confidence as well as level of the premium are the factors indicated by ca. 50% of the respondents as the most important in taking the decision on further relations with the current insurance company.

Loyalty of customers purchasing insurance services was determined on the base of the analysis of the length of their relation with the insurer (over 60% of

the respondents maintain the relation with the insurance company for longer than 3 years); divisibility (over 50% of the respondents use services of just one insurer); propensity for change (almost 70% of the respondents would rather not change the insurance company): sensitivity to price change (at 5% price change 65% of the respondents would rather or definitively not search for a new provider of insurance services while in case of 10% increase of the price the loyalty was declared by 25% of the respondents); satisfaction (satisfaction level of 72% of the respondents was at a high level) and frequency of providing recommendations (over 40% of the respondents recommended the insurance company to their nearest people several times).

Loyalty of the customer is a very complex attitude and as a consequence difficult to achieve and maintain in practice. Nevertheless it gives the insurance companies concrete benefits and is necessary for achievement of long-term success. That is why it is worth taking effort related to surveying that phenomenon that is influenced by many interlinked factors. "Loyalty of consumers is currently one of the goals of the investments in the consumer" (PAZIO 2007, p. 374).

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