Customer loyalty Matters much for Insurers.

“Every great business is built on Relationships” JC Penney

Traditional practices of marketing are shifting from “product –centric marketing” to “customer- centric marketing” that is from a single transaction to long term relationship building. Insurers are started recognizing as customers are the core of a business and that a company’s success depends on their long-term relationships which result in successful customer retention. Benefit of loyal customers to companies are summed up by pareto’s principle 20 % of a company’s customers generate 80% of its profits. Though, it is less costly to retain a customer than to find new one. Benefits of loyal customers to insurance companies are encapsulated the main theme as below.

1. Cross-selling: Loyal customers purchase more different products. Ernst & Young(2012) study on Indian insurance shows 38% of customers who purchased more than one product from the same provider did so because they trusted the company.

2. Word-of-mouth (Advocacy, Referrals): Referrals among family, friends &acquaintances. The finding of this study indicates 33% of the respondents were influenced by their relatives, friends and acquaintances’ word-of –mouth.

3. Abiding with the company (immunity for competitors): Lower cost of servicing loyal customers since greater knowledge of customer needs leads to greater efficiencies in meeting them. It is claimed that 5% increase in customer retention leads to an increase of profits by 25% to 95% (Sallberg, 2004 as cited in Nana 2010).
As insurance companies are operating in fierce competitive environment, one of their main challenges is customer retention. A lapsed customer can damage a company in two ways: Loss of business and negative word of mouth

- American satisfaction index indicates 26% of insurance customers will switch insurance providers, based solely on a bad experience with the company

- Interview with Nile insurance marketing director, Ethiopia showed from 25,840 policyholders 3,997 (15%) did not come up for renewal of their policies in 2010/11.

When a customer lapsed he may dissolve all or one or two of his/her policies.

This initiated me to start a study on the drivers of loyalty and their influences. It is hoped that the study contributes much for insurers to deploy resources on antecedents of customer loyalty for the building of customer loyalty in the insurance sector.