A COMPARATIVE ANALYSIS OF CAUSES OF CUSTOMER RETENTION AND ROYALITY IN NIGERIAN INSURANCE INDUSTRY

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ABSTRACT

Many organizations have step by step strategized their operations with customer loyalty in mind in a bit to servicing customers better. Instead, most have adopted improvement programs ad hoc, and paybacks haven’t materialized. Building a strong loyal customer base must be integral to a company’s basic business strategy. The economic benefits of high customer loyalty are measurable in terms of profit, market share and market lead. When a company consistently deliver superior value and wins customer loyalty, market share and revenues go up, and the cost of acquiring new customers goes down. The better economics mean the company can pay workers better, which sets off a whole chain of events. Increased pay boosts employee morale and commitment; as employees stay longer, their productivity goes up and training costs fall; employees' overall job satisfaction, combined with their experiences, helps them serve customers better; and customers are then more inclined to stay loyal to the company. Under customer loyalty, a company must understand the relationships between customer retention and the other parts of the business--and be able to quantify the linkages between loyalty and profits. It involves readdressing and assigning four important aspects of the business: customers, product/service offering, employees, and measurement systems.

KEY WORDS: Customers, Royalty, Retention, Satisfaction, Organization
INTRODUCTION

A customer is the most important person in any business. A customer is not dependent upon us rather we dependent upon him. A customer is the sole purpose of our being in business. A customer does us a favor when he comes in. We aren't doing him a favor by waiting on him. A customer is an essential part of our business—not an outsider because he does us favors when he comes in. Therefore, a customer deserves to be treated with respect.

It is our responsibility in business to see that a customer who comes to us with his needs and his wants are being met. They deserve the most courteous attention we can give him for the lifeblood of every business. He pays your salary and without him we will be out of business.

According to the Harvard Business School the increasing customer retention rates by 5 percent increases profits by 25 percent to 95 percent. This is important to consider when evaluating your own customer loyalty strategies because in the customer service voice-chamber there is a lot of discussion about taking care of customers, but little discussion on the business side of things.

THE CONCEPT OF CUSTOMER RETENTION AND LOYALTY

CUSTOMER RETENTION

Customer retention is the activity that a selling organization undertakes in order to reduce customer defections. Successful customer retention starts with the first contact an organization has with a customer and continues throughout the entire lifetime of a relationship.

Customer retention is more than giving the customer what they expect; it’s about exceeding their expectations so that they become loyal advocates for your brand. Creating customer loyalty puts ‘customer value rather than maximizing profits and shareholder value at the center of business strategy’ (Reicheld, 1996). The key differentiation in a competitive environment is often the delivery of a consistently high standard of customer service.

Retention rate is usually defined as the percent of a customer population who were “active” as of some earlier date and are still considered active a year later. (We'll use one year in our examples in this column, though different companies will use shorter or longer periods, depending on their business.) So retention is a number, like 82% (that's good) or 28% (that's bad). Most important, retention rate is not a measure of individual customer behavior but the behavior of an entire customer population. Customer retention has a direct impact on profitability.

Sean (2009); observed that many companies have customer retention programs, incentives to motivate customers to remain customers. Think of supermarkets that recognize your patronage by giving you a percentage discount on your next purchase.

Customer Retention: a strategy whose objective is to keep a company’s Customers and to retain their revenue contribution. Primarily it aims to prevent customers from going to the competitor.

CUSTOMER LOYALTY

Customer Loyalty is the feelings or attitudes that incline a customer either to return to a company, shop or outlet to purchase there again, or else to re-purchase a particular product, service or brand.

Loyalty on the other hand is a measure of the performance of individual customers. A loyalty score is built of many parts. It can include how much a customer has bought, how often they purchase, how many different items they buy from your product set, how long it's been since they last bought or visited your website, and their future value. It's obvious that these numbers will vary from customer to customer. Loyalty is really
customer retention rate—whether the customer sticks around and buys again. Retention is an old and valued friend to data-oriented marketers, but it is not the same as loyalty.

Ciotti (2013) opines that customer retention is incredibly important for growing a sustainable business. "A majority of customer loyalty programmes in the business world are transactional in nature. They offer a customer points if they do business worth a set amount. And hence, these programmes are not designed to build loyalty.

A company’s ability to attract and retain new customers, is not only related to its product or services, but strongly related to the way it services its existing customers and the reputation it creates within and across the marketplace.

SIMILARITIES OF CUSTOMER RETENTION AND LOYALTY IN THE NIGERIA INSURANCE INDUSTRY

The bottom line is that both loyalty and retention are equally important concepts that every business needs to manage. A strong loyalty program can bring in and create new customers. A strong retention program will keep those customers.

Loyalty and retention are two sides of the same coin, but from different perspectives: loyalty from the customer side (which takes a long time to build), and retention from the dealer side (which can be lost instantly). They are co-directional in the sense that the higher the customer loyalty to a brand or a dealership, the higher the retention rate, and vice-versa.

That retention should be the primary focus of after sales, and that being flexible enough to adjust your service offerings to match your different customer segments is the way to ultimately achieve loyalty.

THE DIFFERENCES BETWEEN CUSTOMER RETENTION AND LOYALTY

As retention marketers, we are often asked about the difference between retention and loyalty. The widespread misunderstanding of these marketing specialties has presented us with many opportunities to clear up the confusion. Here’s a simple explanation. (Lehman, 2014)

Loyalty is about growth

Loyalty and loyalty programs talks about marketing programs that work to transform a customer’s positive interactions with a company into positive outcomes for the customer. And when they are done right, they can have some amazing outcomes. The point of loyalty marketing programs is to grow the habits of a customer, recognize the right behaviors and focus on the customer becoming more loyal results in a higher value customer for the business and higher value experience for the customer.

Retention is about decline

Retention is about the preservation, rather than growth of a customer. Retention campaigns are focused on a positive indication that this customer is on their way out the door. It’s no longer about growth or what could be, it’s about knowing what is about to happen to your customer and doing something about it. Most of the time we think of retention as the department we have to pass through when canceling a service, but that is a narrow view. Retention marketing has to do with education, evaluation, and fit. It’s about the value the customer sees in the service. Price reductions for retention like many companies do, it results in a temporary solution if the value is not established. And in most cases, those using pricing don’t value the consumer as much as they should. Education focuses on the value of the service, making sure they properly evaluate the product, and making sure it’s a good fit. Once a customer becomes disillusioned with a company they will seek other sources for the products and services provided. Many companies will offer customers who are the brink of departure discounts to salve the wounds that created the desire to depart and look for greener pastures. Customer preservation comes from customer education. Customers often see alternative sources
when they lose sight of the value proposition that the company is offering. The primary objective of customer retention should be education of the customers. Customer loyalty is when a customer puts complete trust in you doing the best thing for them regardless (to a point) of cost. Loyal customer never think of going elsewhere as it is within them to only deal with you as they have complete trust in you, but it is very important never to break that trust and you have a customer for life!

A customer's loyalty measurement offers actionable opportunities:

A drop in a customer's loyalty should trigger an offer with an incentive to make a purchase.

A rise in a customer's loyalty should draw a thank-you and offers on high-margin products.

Messaging based on loyalty measurements lets companies make individualized offers relevant to customers with similar buying behaviors.

Customer loyalty is all about attracting the right customer, getting them to buy, buy often, buy in higher quantities and bring you even more customers. However, that focus is not how you build customer loyalty (ad#Google Adsense).

**You build loyalty by...**

Keeping touch with customers using email marketing, thank you cards and more.

Treating your team well so they treat your customers well.

Showing that you care and remembering what they like and don’t like.

You build it by rewarding them for choosing you over your competitors.

You build it by truly giving a damn about them and figuring out how to make them more success, happy and joyful.

Customer retention on the other hand is just that! A current customer who looks around and compares your offer against others but always give you the opportunity to get the last word which often results in you giving something away to gain the sale. Customer retention is experienced when either you have:

1. A monopoly on the product or market (rare or short-term)
2. Customer retention in an intrinsic part of your company's strategy that is built around providing an excellence in product/service, monitoring the customer response to your offering and moving with ever changing customer and market requirements

Retention rate is useful as a company measuring stick, but it offers no actionable information to help improve business success. Customer loyalty scores, however, contain information that enables marketers to make relevant offers that result in more sales.

Professor Frances Frei Harvard Business School noted that, "a mislabeled loyalty program can prevent a company from creating a real one." Understanding the difference between loyalty and retention is important because of the implied assumption that they correlate with business success (more revenue or profits or both). If the correlation exists, then managing for improvement in customer retention or customer loyalty equates to managing for business success.

A closer look at the dimensions of loyalty gives a better understanding of the differences between loyalty and retention, and why those differences matter.

Granularity
Retention rate is a macro number. It's a measure that applies to a customer population as a whole. Companies are much more interested in knowing how many of their customers stay active and purchasing (retention rate) than they are in how long a particular customer has been in their file, whether active or inactive (retention). Retention is a binary yes/no question, and retention rate summarizes the status for the entire customer population.

Loyalty is a micro concept. It is defined and measured customer by customer. It is not binary as retention is. Two customers could both be active yet have different degrees of loyalty.

**Measurability**

Measuring retention rate is simply a matter of counting the customers who were active on some prior date, usually one year ago, and then seeing how many of these same customers are still active while loyalty is a concept and must be defined in terms of some physical reality if it is to be measured.

A loyalty can be described in terms of some behavioral activity such as frequency of purchases.

**Utility**

Since retention is a company-wide metric, there are really only two things a marketer can do based on a retention rate: groan (when the retention rate drops) or grin (when it rises). Rich, company-wide incentives are wasteful and inefficient.

**IMPLICATIONS OF CUSTOMERS RETENTION AND LOYALTY IN THE NIGERIA INSURANCE INDUSTRY**

Retention and Loyalty are two different types of marketing campaigns. Companies should have both campaigns working in tandem as part of the on-going customer conversations. Without these campaigns, businesses miss critical communication points that could result in bigger returns and long lasting relationships. In this economy, customer retention is a great objective. But customer loyalty is even better. Retention programs are often built on a financial transaction. Problem is, your value add to the customer is now about lower prices. Competitors can start to pick away your clientele simply by offering a better deal.

**CUSTOMER RETENTION STRATEGIES FOR COMPANIES**

Customer retention is on the minds of small and medium-sized businesses across the world. With rising customer acquisition costs, businesses need to innovate and assume a proactive role in retaining clients.

Studies from the U.S. Small Business Administration and U.S. Chamber of Commerce have found that acquiring new customers can cost as much as five to seven times more than simply retaining existing customers. The fact that customer profitability tends to increase over the life of a retained customer is added incentive for businesses to allocate more resources to sharpening their customer retention strategies (Ross, 2014).

An insured (customers) may leave an insurer (companies) on the account of the following reason.

68% leave because they are unhappy with the service they receive be it during business proposal, policy terms, and renewal or during claims.

14% are unhappy with the product or service offer which does not suits their individual need.

9% decide to use a competitor where they have better testimony in terms of service delivery.

Ross (2014) stated the following nine customer retention strategies will give you some inspiration and practical examples to help you improve your customer retention rates. They address the above mentioned problems and provide you with actionable tips you can implement today to maximize your customer retention.
1. **Set customer expectations**

The first step to building better customer retention is to set client expectations early; the early the better. Shannon Kohn from Datto wrote a great article highlighting the importance of companies’ setting expectations through service level agreements (SLAs).

A great way to foster loyal customers is to “under promise and over deliver” on the expectations you originally laid out in the policy. For instance, IGI Insurance Company states in its customer service relation that any complain reported or submitted with an “urgent” priority will be replied to within one hour. In reality, the response time on those tickets is closer to five minutes. This clear vision enables your company to build KPIs around specific expectations and ensure you are always over delivering.

2. **Be the expert**

Insurance contract is a professional business that requires technicality and expertise in its operation. Insurance companies as services industry are becoming more and more dependent on services to run their operation. No matter what industry you occupy, if you can be the expert in your particular field, you will likely retain more customers. The full involvement of insurance experts in different unit be it in brokerage, underwriting, claims etc. Becoming your customers’ trusted advisor will build customer loyalty and reduce customer churn. As a professional broker, you should aspire to be the brokerage guru. Then your responsibilities will transcend the bare minimum your contract entails. If an insured

(Customer) wants advice on the most suitable mobile phone, you better be ready to assist that customer in choosing a device.

3. **Build trust through relationships**

As the saying goes, you do business with people you trust. In insurance trust is one of the essential requirement in insurance business, and building relationships with clients will garner that trust? Studies have established that as trust increases, commitment tends to grow and recommends building trust through shared values. In insurance, the principles of utmost good promote trust from both parties the insured and insurer in other to have harmonious contract. Cultivating shared values means taking an interest in your clients and their business. Do some researches on their business, competitors, implementing a relationship marketing strategy understand how you play a role in their day-to-day activities, and use this information to strengthen your relationship. This could achieved by :

Implement a monthly email marketing campaign

This is a lot easier than it sounds. You want to email your existing customers once a month.

ii. **Start a blog**

Write a weekly article on something interesting you accomplished that week maybe a claim payment , or any other complainant of the insured that has being accomplishment you feel your customers would value.

4. **Implement anticipatory service**

Anticipatory service is a proactive approach to customer service. Instead of waiting for problems to occur, a company that implements anticipatory service can eliminate problems before they happen. For instance, calling to guide them on how and what is required of them in proposal form, remaindering customer (insured) of renewal. To achieve and maintain this harmony, today’s companies (insurer) must establish a dialogue with customers that shows an awareness of their information needs and respect for their communication preferences. The more contacts made with a customer, the “stickier” that customer becomes. When customers are consistently given valuable information, this stickiness can form a durable bond of loyalty. Examples of anticipatory service:
An insurer providing an extinguisher for fire policy.

A major airline proactively texts customers to advise them of flight delays.

A corporate billing department alerts customers when an invoice is nearly due.

By being proactive – you can save yourself a lot of reactive problem fixing in the long run and build the perception that you are the type of company that consistently offers ‘anticipatory service’ with your customers.

5. **Make use of automation**

Automation tools allow for time-consuming tasks requiring manual intervention to be standardized into repeatable processes. Companies that leverage automation are able to minimize downtime and keep clients’ networks performing at their best. Companies are typically bound by contracts that guarantee their services and make them accountable to clients. By leveraging automation tools and streamlining repeatable processes, companies can better meet their commitments. By standardizing your processes and setting expectations for service levels, you can increase customer loyalty, which will lead to improved customer retention rates.

6. **Build KPI’s around customer service**

A great way to improve customer retention is to improve customer service. As outlined at the beginning of this post, 68% of your customers leave because they are dissatisfied with the service. Most of the insurance clients leave because dissatisfaction in the service delivering. The team set out to rectify the problems right at the source.

7. **Build relationships online**

Your clients are online, so let’s start building relationships with them while they are glued to their computer screens. With the rise of social media, connecting with your clients through these mediums makes sense. Focus my efforts on building social profiles on whatapps, Twitter, and Face book. The majority of your clients will have active profiles on at least one of these Web sites. Connecting with customers and building communities takes more effort and time than typical social media acquisition strategies. For companies struggling to find topics to post about on their social media channels, Scott from MSP Business Management recommends the following:

- Product news updates.
- Short pieces on key news, such as claims update or other sensitive matters.
- Investment returns.
- Reviews of new software.
- Details of new services you offer

8. **Go above and beyond**

Going the extra mile for your customers is an easy way to build strong relationships. As a service business, you have countless opportunities to woo your clients and transcend the minimum.

By doing this, you can build some serious long-term loyalty. If your clients know you are prepared to go above and beyond, they will stick with you when competitors start knocking on their door.

**Ways you can go that extra mile for your clients:**
Pay attention to what your customers want and make their issues your issues – be proactive in addressing them.

Isolate potential issues and fix them before they become problems especial when it matters most to the customers.- claims

**Implement customer feedback surveys**

Customer churn can be avoided by simply listening to your customers. Customer feedback surveys are invaluable for learning how your service is performing in relation to your clients’ expectations.

**RESEARCH FINDINGS**

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They are co-directional in the sense that the higher the customer loyalty to a brand or a dealership, the higher the retention rate, and vice-versa. That retention should be the primary focus of after sales, and that being flexible enough to adjust your service offerings to match your different customer segments is the way to ultimately achieve loyalty.

**CONCLUSION**

The above nine customer retention strategies will empower an insurance company to not only strengthen your client relationships but also boost your bottom and retain more customers and they will remain royal tom their individual companies. Retention and Loyalty are two different types of marketing campaigns. Companies should have both campaigns working in tandem as part of the on-going customer conversations. Without these campaigns, businesses miss critical communication points that could result in bigger returns and long lasting relationships.

**RECOMMENDATIONS**

It is expected that the insurance operators should monitor you must monitor to measure customer retention most effectively:

This feedback will help you retain clients. By understanding client feedback, you can take action before it’s too late and make business decisions based on real data-driven feedback.

There is need should monitor customer responses on an individual level. Comparing feedback across a broad range of customers would be a waste of time. You must narrow the data down to a specific client, see what that client thought, and take action from there.

You need to trend feedback across a period of time. You should track feedback survey to survey so you can see which areas have improved and which have suffered.

The researcher suggests that you request feedback from customer surveys to provide intelligence. You need it to provide you with data regarding what customers are at risk, which areas of your business need improvement, and where your strengths lie.
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