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# Importance of relationship marketing management in the insurance business in Albania

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**Abstract**

In recent times, managers have started understanding the relevance of retaining active customers with companies as a key component guarantying their survival in the market. Moreover, the benefits associated with companies counting on loyal customers have been highlighted. This loyalty emerges from the relationship "customer-organization", the longer and more intense the relationship is, the higher the benefits. The aim of this paper is to emphasizes the importance of relationship marketing management in Albanian insurance businesses.



*Keywords:* relationship management, customer relationship, insurance services

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## 1. Introduction

Insurance market activity, both as a financial intermediary and as a provider of risk transfer and indemnification, promotes economic growth by allowing different risks to be managed more efficiently. This activity would encourage the accumulation of new capital and mobilize domestic savings into

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productive investments. Arena (2008), found that a robust causal relationship exists between insurance market activities and economic growth. The marketing concept emerged in the mid–1950s. Instead of a product–centered, 'make–and–sell' philosophy the business shifted to a customer–centered, "sense–and–respond" philosophy. The job is not to find the right customers for your products, but to find the right products for the customers (Kotler and Keller, 2008).

The American Marketing Association, defined marketing as "An organizational function and set of processes for creating, communicating, and delivering value to customers and for managing customer relationships in ways that benefit the organization and its stakeholders". Marketing management is the art and science of choosing target markets and getting, keeping, and growing customers by creating, delivering, and communicating superior customer value.

Marketing is a societal process by which individuals and groups obtain what they need and through creating, offering, and freely exchanging products and services of value with others. Holistic marketing approach recognizes that 'everything matters' in marketing. It has four components i.e., Relationship marketing, Integrated marketing, Internal marketing and Performance marketing (Kotler and Keller 2008). McCarthy (2002) classified marketing activities as marketing mix tools of four broad kinds which he called four Ps of marketing: viz., product, price, place and promotion usually applied to marketing of tangible goods.

However to capture the distinctive nature of service performances three more elements associated with service delivery are considered physical environment, process, and people (Lovelock and Wirtz 2004). Thus, for effective marketing strategies of services all the seven P's (product, price, place, promotion, physical environment, process and people) play an important role.

## 2. Literature review

### *2.1. Financial markets*

During the last decades competition has intensified in the financial markets and companies have encountered difficulties in selling their goods or services, and thus also, in keeping their market share. As a result, a phrase that has been commonly used in recent times and is appropriate for all business activities is to keep the "customer in focus". This represents a change in the way business leaders think about the company's relationship with the market. It can be said to represent a change from a product oriented to a market oriented way of thinking. The processes of deregulation and technological development have altered the traditional barriers between different institutional groups, and there has been a redefinition of the marketplace: we tend to speak of financial services as a whole rather than banking or insurance specifically. This represents a threat and, at the same time, an opportunity to financial providers, as it opens up the possibilities of offering customers a more integrated range of financial services. Many financial institutions have expanded into new, but still closely related, markets and the number and variety of competitors has increased. The search for competitive advantage has increasingly tended to focus on the process of service delivery rather than the service itself, which consequently has turned attention to the concept of "relationship marketing".

### *2.2. Insurance services*

According to the Encyclopedia Britannica, insurance is "a contract for reducing losses from accident incurred by an individual party through a distribution of the risk of such losses among a number of parties." The definition goes on to say: "In return for a specified consideration, the insurer undertakes to pay the insured or his beneficiary some specified amount in the event that the insured suffers loss through the occurrence of a contingent event covered by the insurance contract or policy. By pooling both the financial contributions and the 'insurable risks' of a large number of policyholders, the insurer is typically able to absorb losses incurred over any given period much more easily than would the uninsured individual" (Encyclopaedia Britannica, Micropaedia, 1987, p. 335). A briefer definition of insurance as a phenomenon is "the practice of sharing among many persons, risks to life or property that would otherwise be suffered by only a few. This is effected by each person paying a sum of money called a *premium* which, with those paid by all the others, is put into a 'pool' or *insurance fund*, out of which money is paid to the few who suffer loss" (Longman Dictionary of Business English, 1989). The policyholder thus pays someone else a premium to bear his or her risk, knowing that a possible future loss will be compensated for according to the premium paid. If lucky, the policyholder will never have to experience the tangible results of the service of reduced risk during the contracted policy period. On the other hand, the policyholder maintains a certain uncertainty towards the service that he or she pays for, something that adds to the peculiarity of insurance services.

### *2.3. Particularities of the exchange and distribution of insurance services*

Not only are financial services complicated in nature, but the relationship between the financial institution and the customer may also become very complex. This is due to the fact that financial service customers seldom buy just one product, but rather purchase a range of products, often in the form of a 'package'. The service provider has to establish priorities concerning how much involvement should be invested in a relationship, taking into consideration both the type of service and the type of customer concerned. The more complex the financial service provided, the higher the long-term commitment, the larger the resources, and the increased risk required. In order to understand the corporate customer's behavior when discussing an offer with the company representative it is, among other things, valuable to consider tax legislation and its effects on insurance decisions. Loss and damage of a company's inventories and/or stock are considered as operational losses and thus tax deductible. The question is whether to choose a high retention in favor of a lower premium or vice versa. The opposite conditions exist, however, concerning real estate. A loss of a building is considered a loss of capital and thus is not tax deductible. In this case it is a tax related advantage to sign on insurance with as low retention as possible, since paid premiums are looked upon as operating costs and thus deductible variable costs (Bergendahl, Hartman & Lindblom, 1990).The relationship manager in an insurance firm must be equipped with enough experience and knowledge to be able to manage the complexity and intangibility of the insurance services provided, so that there is no doubt of the customer's level of comprehension. All in all it is a matter of the insurance agent's ability to inform the customer of the elements of the particular insurance. This is also the fact in the chosen marketing strategy, which has to aim at increasing the comprehensibility in the relationship in order to make the service more palpable. There are no shortcuts in making the insurance service more tangible to the customer, and this concerns all kinds of insurance . Not everyone understands guarantee insurance on a new pair of glasses at first sight, the message has to be transferred in a competent manner. Another particular feature of insurance services is the frequency of contact between the insurance agent and the customer. Although there are similarities between financial services companies in general regarding this matter, insurance companies are at the low-end extreme. Consider, for example, banking services. A private customer is, for various reasons, in frequent contact with his or her bank and the banks have consequently, over the last couple of years, understood the importance of, and been influenced by, relationship marketing. At an increasing rate they have offered the services of a personal banker, provided the opportunity of electronic banking and so forth. Even the banks' business clients have experienced the effects of relationship marketing in a situation where the key account manager of a bank often plays a vital role in a firm's future ability to survive (e.g. Danielsen &

Gidhagen, 1995). However, considering insurance services, both in terms of commercial and private insurance, the personal interaction between the parties is limited, and in some relationships there may not even have been a single opportunity to meet personally with the insurance agent. This requires well-educated and highly trained agents in order to maintain profitable relationships. Consequently, there is a difference between relationships in banking and insurance, although stressing the importance of the relationship manager in both cases, considering the fact that insurance services are more complex and difficult for the customer to fully comprehend.

### *2.4. Relationship management*

The term "relationship marketing" has become popular during the 1990s. The traditional concept of marketing is often described as referring to operations where the market is manipulated through a marketing program involving the 4Ps of the marketing mix model: product, price, place, and promotion. In the late 1970s a new concept evolved in northern Europe, elaborated simultaneously by researchers working in the field of industrial marketing who developed the industrial network theory (e.g. Håkan Håkansson and Jan Johanson) and in services marketing (the Nordic school of services, e.g. Christian Grönroos and Evert Gummesson). The new approach stressed the relationship between the seller and the customer, and ever since the publication of an article by Professor Leonard L. Berry in 1983 (Berry, 1983), the most widely used term for this perspective has been *relationship marketing*. The new perspective was created as a counter reaction to the view of transaction marketing in mass markets, symbolized by the 4Ps. Establishing, strengthening, and developing of relationships with customers was in focus, in particular primarily long-term and enduring relationships. The shift to relationship marketing (Payne et al., 1995, p. viii):

Transactional focus

- Orientation to single sales
- Discontinuous customer contact
- Focus on product features
- Short time scale
- Little emphasis on customer service
- Limited commitment to meeting customer expectations
- Quality is the concern of production staff

Relationship focus

- Orientation to customer retention
- Continuous customer contact
- Focus on customer value
- Long time scale
- High customer service emphasis
- High commitment to meeting customer expectations
- Quality is the concern of all staff

Thinking of marketing in terms of *having* customers, not merely *acquiring* customers is crucial for service firms. Berry defined relationship marketing as attracting, maintaining, enhancing, and commercializing customer relationships, so that the objectives of the parties involved are met (Berry, 1983). This is achieved by a mutual exchange and fulfillment of promises.

Establishing a relationship involves making promises, maintaining it is based on fulfillment of the promises made, and enhancing it entails making a new set of promises (Grönroos, 1990b). Relationship marketing, based on the fact that provider and customer co-operate to a certain extent in a joint process where production and consumption occur simultaneously, implies mutual co-operation between the parties instead of conflict and competition. This does not mean, however, that these variables are eliminated, only that they are made more explicit and easy to control (Grönroos, 1996).

A good relationship implies at least two fundamental conditions. First, it should be mutually rewarding to the provider and the customer (i.e., they should both benefit from the connection) and second, it involves some kind of mutual commitment over time. In establishing and maintaining customer relations, the seller gives a set of promises that are connected with goods, services, or other benefits. In exchange, the buyer gives his or her promises and these promises must be kept on both sides in order to ensure profitable long-term business operations (Grönroos, 1990a).

### *2.5. Relationship marketing in an insurance environment*

A relationship marketing approach allows the insurance marketer to offer a product in response to needs triggered by the customer and based on experience and information gathered over time. Sales and profitability can be dramatically increased because the more a marketer knows about a customer the more effectively the customer can be approached with appropriately targeted products (Harrison, 1993).One of the major themes in relationship marketing, as well as a key to profitability, is to develop long-term relationships with customers. This involves the ability to retain customers, and is in turn, dependent on agents possessing the “right” characteristics. What is “right” varies depending on whether the customer is an individual or a company. In insurance language these two types of customers may be called personal lines policyholders and commercial lines policyholders respectively.

## 3. Insurance market in Albania

Insurances in Albania are relatively a young industry though their inception date comes from 1900. Insurance market in Albania has passed through several stages.

First stage - dates on the Second World War, when all insurances activities here carried out by foreign companies (Londoner, Italian and French). Most of these companies covered insurance activities related with natural disasters in premises, industries and life, introducing for the first time the insurance concept in the Albanian life. In 1946 these foreign companies were put under privatization.

Second Stage – covers the period from 1944 to 1991. In 1948 a decree, authorized the establishment of the Government Insurance Institute. In 1954 for subjective reasons this institute was merged together with Savings Office, creating this way a single institution named Savings and Insurance Institute. These two institutions had nothing in common referring their functionality, resources and purpose. Under this circumstances, and affected by the isolation regime with other countries, insurance in Albania passed through stagnation and suffered lack of diversification and mandatory regulation. In that time during a meeting the Ministers Council determined the obligatory insurance of government property, while for the private property, insurance was enforced by law. Objectives, risks, tariffs, premiums, regulation and other conditions related with insurances were approved by the Finance Ministry over the proposals of Savings and Insurance Institute. During this stage one cannot discuss about real insurance market in Albania. The economy was centralized, so every gathered premium was used according to a plan by the state. It was impossible for the institution to have its own investment portfolio.

Third stage - lasts from July 1991 up to now. The significant changes happened in the country have caused adequate reflections in insurance market as well. The Savings and Insurance institute was split up by law No7506 (July 31, 1991) in two different institutions: Savings Bank and Insurance Institute named also INSIG. INSIG was the first Albanian insurance company created as a commercial enterprise and acted in compliance with market economy rules. The law No8081 (March 7, 1996) was decisive in reformation law terminated the monopoly position of INSIG and enabled insurance market liberalization, facilitating new companies entrance in the market. On surveillance kevel, the Albanian Financial Supervisory Authority (AFSA) acts as the legal institution authorized to evaluate companies, distribute licenses, monitor and audit the insurance and reinsurance companies. Present insurance market is represented by 7 companies operating in nonlife insurance segment, 2 companies in the life insurance and 1 company involved into the both segments. All of them, except one, are privately owned and six have capital which is majority domestically owned. Only one ompany is authorized to conduct reinsurance activities. Thus, we can state that the number of the companies acting in the country market is smaller compared with the number of the companies operating in other Balkan countries like Croatia (27 companies) and Slovenia (18 companies). One of the most important indicators of insurance industry development in a country is the penetration coefficient as ratio

## 4. Relationship marketing in insurance business in Albania

A recent survey among insurance customers in Albania was undertaken by Albanian Financial Supervisory Authority (AFSA). They reported that personal lines customers defined retention as dependent on the provider's professionalism, value, accuracy, and helpfulness, whereas (small) commercial lines customers claimed that retention was dependent on quick service, value, and an understanding of the company's needs. The same study showed that of the 1500 personal lines policy holders surveyed, 52% were more interested in forming a long-term relationship with their agent than finding the lowest price, compared with the so-called "automatic pilot" buyers, representing 26%, who wanted insurance matters handled without agent contact. Considering the 750 commercial lines customers in the survey, 67% regarded property and casualty insurance as a good investment in the long run, whereas 33% were less likely to agree on that, many of them having switched agents in the three years preceding the survey.

AFSA concluded that "achieving service excellence is an ongoing process of integrating several areas, including management leadership (setting a vision for commitment to superior service), tangibles (the appearance of physical facilities), information (data and management systems), human resources (customer service) and processes and procedures (examining work flows)" (Sonhine-Pasher, 1996a, p. 3). This is very much in line with the discussion so far, and emphasizes the customer relationship and relationship management. However, the tangibles referred to by ISAA are different from the concept of tangibility discussed above. Clearly, business strategy has shifted and there is a strong movement towards exploring the economics of relationship management and customer retention as researchers as well as practitioners refer more and more to the customer relationship as the unit of value (e.g. Gummesson, 1997; Goldberg, 1997).

## 5. Concluding remarks

Customer relationship management is an issue that every company, large or small must take in some way. Handled well, a CRM strategy can deliver significant benefits for companies and customers.

There are relevant indications that tactically applied relationship marketing strategies provide a viable solution to insurance companies in competitive distress. Managed in the right way, the adoption of the relationship management theories treated in this report have every chance of being a key factor contributing to success, and even to survival, in the years to come for insurance businesses in Albania. The competition in the insurance markets will most certainly continue to intensify: banks, insurance companies, and other financial institutions will keep on merging, cross-selling services and erasing the borders between the respective fields of financial services. The financial markets of the 21st century may be markets where there are no longer anything called "insurance companies" or "banks," but only more idely encompassing *financial services organizations*. This development gives cause for launching every action possible to retain and deepen profitable customer relationships in order to survive the battle for market share. The customers are, and have always been, the perhaps obvious, but still vital, key to holding a favorable position in the market, and to do so at a profit. "The customer is king" is a well-known phrase in marketing. However, following this reasoning relationship management is the indispensable *queen*, which requires the deepest respect and a strong and well-elaborated sense of strategy

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