

THEORETICAL AND METHODOLOGICAL ASPECTS OF INSURANCE CUSTOMER LOYALTY AND ITS CULTIVATION

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Abstract. *The article, after the evaluation of opinion of various authors, first of all deals with the contents of loyalty of the insured and gives its definition. It also discusses theoretical questions of insurers' benefits due to loyalty of the insured, a the benefits of the insured themselves. While examining the factors influencing satisfaction and loyalty of the insured the conclusion is made that the most important factors are the image of an insurance company, its reliability, the comprehended quality of the insurance services and their price, and the means of motivation of the insured. Furthermore, the article discusses the effect of the corresponding factors on the emotional and rational loyalty of the insured and on the formation of true loyalty of the insured. The article pays exceptional attention to such theoretical issues of implementation means and actions of cultivating loyalty of the insured as the functions of the system of means of loyalty cultivation, the strategies of loyalty cultivation (financial motivation, social relations, meeting of individual requirements, structural relations).*

Key words: *loyalty of the insured, benefits of loyalty, satisfaction of the insured, cultivation of loyalty of the insured, strategies of loyalty cultivation.*

Introduction

Competition, which is becoming more obvious in the Lithuanian insurance market, complicates the search for new customers for insurance companies, makes it difficult to "domesticate" the newly insured and increases the expenses of this process. Therefore, loyalty of the present customers (those already insured) becomes more significant and advantageous, and the cultivation of such loyalty becomes of high importance. This problem is more likely to

become more significant in the future depending on the level of competition among insurance companies. However, neither Lithuanian scientists nor practitioners (specialists of insurance companies) produce scientific publications on the theoretical and practical loyalty issues of the insured and its cultivation. True, periodicals do sometimes mention the importance of loyalty of the insured and particular fragments of its cultivation. On the other hand, reconnaissance researches of loyalty of the insured

and its cultivation, made with the help of the insurance management postgraduates in the main insurance companies operating in the Lithuanian market shows that: insurance companies have little experience of cultivation of loyalty of their insured; loyalty of the insured is being cultivated in unsystematized manner and episodically; insurance companies usually use only financial motivation means to cultivate loyalty of their insured; insurance companies do not have strategies of loyalty cultivation of the insured, etc.

The above-mentioned circumstances encouraged the author to analyse more profoundly the main theoretical issues of the insured loyalty and its cultivation, i.e. to form a methodological basis of the practical cultivation of the insured loyalty problems in Lithuanian insurance companies. The considerations expressed in the introduction of the article concerning the state of the problem analysis in Lithuania explain the novelty and relevance of the theoretical methodological issues of the insured loyalty and its cultivation, analysed by the author.

It is important to mention that the author in could not find the available literature publications of foreign authors that would analyse in a complex manner the theoretical and practical issues of loyalty of the insured and its cultivation. Therefore, this article while analysing the main problems of loyalty of the insured refers mainly to works of Lithuanian and Western authors dealing with overall customer loyalty (Pranulis, Pajuodis, Urbonavičius, Virvilaitė, 2000; Buttle, 2004; Hill, Alexander, 2000; Johnson, 2000; Sheth, Mittal, 2004; Stone Wood-

cock, Machtynger, 2000) and loyalty of customers of service providing companies (Bagdonienė, Hopenienė, 2004; Vengrienė, 2006; Bennett, Bove, Dann, 2002; Grönroos, 2001; Kasper, Helsdinger, Wouter de Vries, 1999; Loveloch, Wandermewe, Levis, 1999; Zeithaml, Bitner, 2003).

The subject of the research: loyalty of customers of insurance companies.

The objective of the article: to analyse theoretical methodological aspects of the insured loyalty and its cultivation.

The main tasks: to reveal the methodological aspects of the insured loyalty and the aspects of theoretical research of such loyalty benefits; to define factors influencing the insured loyalty and to show their impact on the choice of the insured and their loyalty; to analyse the strategies of the insured loyalty while discussing theoretical issues of the insured loyalty cultivation.

The methods of the research: systemic comparative and logical analysis of the scientific literature as well as synthesis, analogy and characterization, interpretation.

1. Methodological aspects of loyalty conception of insurance companies' customers (the insured) and aspects of the theoretical research of loyalty benefits

As the theoretical issues of the insured loyalty in foreign scientific literature are discussed in a fragmentary manner and this problem is not within the eyeshot of Lithuanian scientists, the methodological aspects of the article are based mainly on the works of Western authors that deal with the overall questions of customers' behaviour, or with the behaviour of customers of

service-providing companies. In the present conditions (when the competition in many service business markets, as well as in insurance service market, is relentless) it gets more difficult for service providers to find new customers. Therefore, the problem of retaining the present customers is becoming more and more important. Nowadays most service providers, as well as insurance companies, tend to pay more attention not to “attracting” new clients, but rather to ensuring customers’ satisfaction with the received services and to cultivation of such customers’ loyalty to a corresponding company. In order to secure the efficiency of such activities in insurance companies, first of all, from the methodological point of view, it is important to determine the conception of the insured loyalty according to which insurance companies would implement loyalty cultivation means and activities.

Scientific literature introduces controversial definitions of loyal customers and their loyalty, sometimes enduing wider and sometimes narrower meanings. Often the essence of loyalty of the customers is narrowed only to their loyalty to certain products and services, or to a certain company (Pranulis, Pajuodis et al., 2000; Garbarski, 2003). Such conception of customer loyalty includes only their behaviour, and does not pay attention to the reasons causing clients to buy often and in great amounts certain products of a service-providing company. The cause of purchase may not be only that a client likes the company and its services. Purchases may recur for many other reasons, such as the force of habit, a convenient location of a company, a lower price of

the desired service, and so on. Sometimes customers are forced to purchase services of the same company because there are no other alternatives in the market, or the number of the offered services is limited. In such circumstances, it is difficult to evaluate whether customers are satisfied with the purchased services, whether they are likely to recommend the services to their friends and relatives, or whether they feel satisfied to be customers of the corresponding company. Therefore, purchasing products or services of the same company reflects the essence of the a customer loyalty concept only partially. It is important to consider the causes that force customer to purchase services of a company while treating the notion of customer loyalty, for often customers buy services and products of the same company because of momentum.

While analysing the contents of customer loyalty from the theoretical point of view, we should consider the fact that loyalty according to the allegiance level of customers to the corresponding company and its services may be grouped into several types. N. Hill and J. Alexander have distinguished five loyalty types according to causes due to which customers tend to purchase products of a corresponding company repeatedly: monopoly loyalty (low level of customer loyalty); change costs loyalty (moderate level of customer loyalty); stimulated loyalty (low or moderate level of customer loyalty); habit loyalty (low level of customer loyalty); attachment loyalty (high level of customer loyalty) (Hill, Alexander, 2000). The lower the level of customer loyalty, the higher the probability that such customer will choose a competitive company if it bids

less for its services or due to change of other circumstances. Such relations with clients are not long-term and durable. Therefore, a customer who is not distinguished by a positive opinion of a company should be considered only partially loyal. Actually, the loyal customer is the customer who not only purchases products and services of a corresponding company repeatedly, but also has a loyal attitude towards that company. Thus, the true loyalty, which is characterized by the high level of customer loyalty, is attachment loyalty, i.e. the physical and emotional attachment of the customer to the company arising when the company fulfils the requirements and needs of the customer.

In order to determine thoroughly the notion of the customer loyalty of insurance companies, it is necessary to refer to the authors that determine customer loyalty by accentuating the loyal behaviour of customers and their loyal attitude towards a company and also evaluate the emotional factors (Schet, Mittal, 2004; Buttle, 2004; Stone, Woodcoch, Machtynger, 2000). When customers give preference to one insurance company as compared to other competing insurance companies, it is possible to state that customers are loyal to the selected company. Such customer loyalty may be determined as emotional loyalty. The behaviour of the insured depicts their relations with their insurance company in the past, and their emotional attitude towards their insurance company depicts the possible change of their behaviour in the future. Moreover, the definition of the customer loyalty should embody voluntary recommendations of the corresponding

company and its services that customers give to their friends, relatives and acquaintances (Loveloch, Wandermere, Lewis, 1999). Thus, having in mind all the above factors, it is possible to conclude that the definition of the insurance customer loyalty embraces the loyal behaviour of the insured (continual purchasing of services of the same insurance company), their emotionally loyal attitude towards the selected insurance company (attachment to the same insurance company and loyalty to it despite offers of competing companies) and voluntary recommendations of the company and its services to friends, relatives, acquaintances, etc.

Since there are numerous variable factors in the insurance services market and the behaviour and attitude of customers towards the selected company can sometimes be ambiguous, their loyalty may be expressed in such modes as true loyalty, hidden loyalty, false loyalty, insufficient loyalty (see Figure 1).

True loyalty of the insured is a loyalty when customers of an insurance company constantly extend their insurance policies, have a positive opinion of the selected insurance company, customers are not motivated to look for competitors offering their services on more favorable terms and willingly recommend the selected insurance company and its services to their friends, relatives, acquaintances, etc.

Hidden loyalty of the insured is a state, when a customer gives preference to a certain insurance company and its products, but for some reasons (for instance, lack of money) takes out policies sporadically.

False loyalty of the insured is manifested when customers of an insurance company

		Frequency and size of purchases	
		<i>High</i>	<i>Low</i>
Attitude	Positive	True loyalty	Hidden loyalty
	Negative	False loyalty	Insufficient loyalty

Figure 1. *Kinds of customers' loyalty (Buttle, 2004)*

extend their policies, but do not notice any qualitative and quantitative differences between the products of the selected insurance company and the insurance products offered by competing insurance companies. This mainly happens when customers have very limited possibilities of choice or they are simply accustomed to be insured by the selected insurance company.

Insufficient loyalty of the insured is such a state when a customer of an insurance company does not notice any differences between separate alternative offers from various insurers; a customer often changes insurance companies; the main factor influencing his choice of insurer and his behavior are discounts applied by insurers, small gifts, etc.

The objective of insurance companies is to cultivate the true loyalty of the insured. A truly loyal customer is a customer who chooses an insurance company and its insurance products voluntarily; he willingly and constantly purchases the insurance company's products; his behaviour and actions show his attachment to the selected insurance company, he trusts his insurance company and does not get attracted by more beneficial offers of competing insurance companies; he voluntarily recommends his insurance company and its services to

his friends, family members and relatives, acquaintances.

The insured becomes a truly loyal customer over a certain period of time. While analysing theoretically the conversion of the insured to truly loyal customers, it is important to pay attention to the following conclusion: the potential customer goes through certain stages; firstly, he becomes a customer, then he becomes a recurrent customer, customer-member, attorney, and finally he becomes a partner who not only purchases insurance services from a certain insurance company constantly, but also disseminates a favorable opinion about that company. Such evolution of customer-company relations is called the ladder of loyalty (see Figure 2).

While analysing an insurance company's benefits of having truly loyal customers from the theoretical point of view, we will refer to conclusions of those authors who published their scientific works on service marketing and management. They expressly state that loyal customers determine better sales and profit. For example, Ch. Lovelock, S. Wandermerve and B. Levis determine the following four factors of profit increase due to which a company having loyal customers is more profitable than its competitors: 1. Bigger gain is due

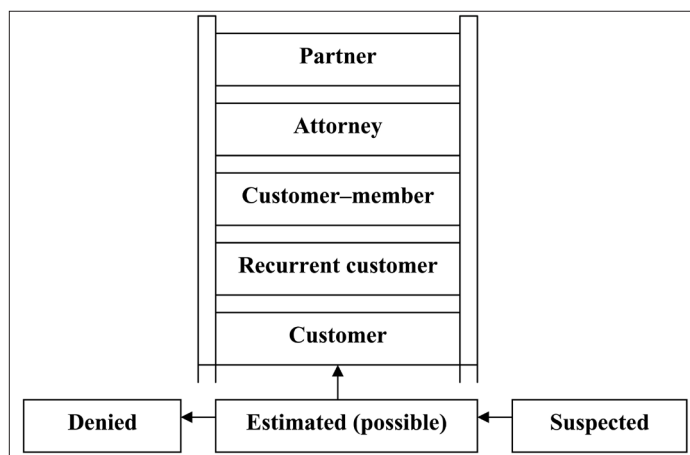


Figure 2. *Ladder of customer's loyalty (Zeithaml, 2003)*

to growing purchases. 2. Bigger gain is received due to lower costs of servicing. 3. Profit due to favorable information about the company. 4. Profit due to higher prices (Loveloch, Wandermerve, Levis, 1999). The mentioned theses could also be applied in regard of truly loyal customers of insurance companies. 1. Truly loyal customers of insurance companies usually increase the number of the insured perils when their income grows, i.e. they purchase more insurance products and services offered by their insurance company. The extent of the insurance services purchased by truly loyal customers is also increasing because they reject offers from competitors. In the course of time, the contact with the selected insurance company becomes closer, clients sign more insurance policies. The profit of the insurance company grows as the insured spend more. 2. The loyal insured is usually well informed about insurance products, rules of insurance and insurance terms of the selected insurance company. Therefore, there is no need to give such a customer additional information or consult him before

buying any kind of insurance product. In this case, customer service takes less time and the operating personnel works more efficiently, for there is no need to evidence benefits of the provided insurance services to a constant customer. The service of a constant familiar customer is simpler, quicker, cheaper, and less undesired customer service mistakes occur. Therefore, accurate and smooth customer service lowers the costs of an insurance company and increases its profit. 3. Loyal customers attract new customers by disseminating positive information about their insurance company and its services. This also contributes to increasing service sales and insurance company saves funds it would spend on advertising and over marketing means. Loyal customers perform the role of an information spreader and do not require remuneration. The newly attracted customers also reduce the costs of the insurer and contribute to the increase of profit. As insurance services and insurance products by their nature are quite complex, oral recommendations (information "from lip to lip") are very effective. 4. As is best

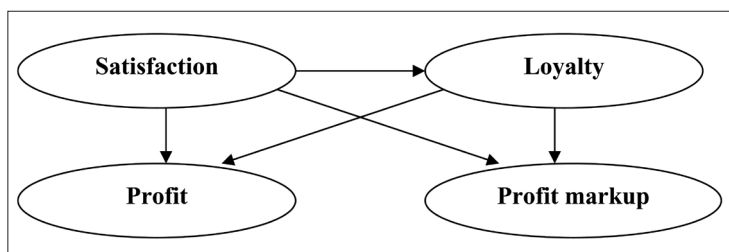


Figure 3. *The model of insurers' income and profit dependence on customer's satisfaction and loyalty*

illustrated by experience of insurers, most often the new customers are attracted by the offered discounts, presents, various advertising campaigns and so on, whereas loyal customers most often pay the same insurance premiums. The discounts that helped to attract new customers do not suit the loyal and long-term customers any more. On the other hand, the customer who trusts the insurance company is predisposed to pay extra money just to receive a quick and qualified service. The loyal insured usually are prone to try new insurance products. Thus, the loyal insured agree to pay more than new clients because they are satisfied with the services provided by their insurance company.

The impact of the above-mentioned factors on service providers' (as well as insurers') profit and the fact that loyal customers are more profitable than the new ones are proved by researches of various authors in certain service providing companies: according to the data of the corresponding researches, a 5 per cent rise of customer loyalty increases a company's profit by 86 per cent (Hill, Alexander, 2000), up to 125 per cent (Smith, 1997). The 50 per cent decrease in customer circulation invokes the rise of a company's profit from 25 up to 85 per cent (Hill, Alexander, 2000); find-

ing a new customer costs up to seven times as much as retaining the present customer (Hill, Alexander, 2000; Loveloch, Wandermere, Levis, 1999; Naumann, Giel, 1995); the profit accruing to one constant customer is increasing constantly in five years time¹ (Grönroos, 2001). According to all the above mentioned, a model depicting the dependence of increase of insurers' income and profit on customer satisfaction and loyalty can be made (Figure 3).

Therefore, the loyal insured help to decrease the costs of the insurers and thus increase their income and profit. That is why insurers should pay exceptional attention to the cultivation of loyal customers. So far, not many authors have noted the fact that while analysing the benefits brought by loyal customers, it is methodologically important to evaluate the benefits of the loyal customers themselves by remaining loyal to their service provider. Not only the insurer, but also the insured is interested in preserving good relationships and creating loyalty. If the insured trusts the insurer and is satisfied with the provided services, he is

¹ As the subjects of insurance are risks of different kinds and sizes, it may become unprofitable to insure a loyal customer against a substantial risk, for it may suggest certain losses for a company. Thus, in some cases the insurer may refuse to insure such a loyal customer.

willing to cooperate with the same insurer because the search of a new insurer will demand time and certain efforts. Moreover, the insured would have doubts concerning the reliability of the chosen insurer and the quality of the provided services. Therefore, the insured, by choosing another insurer, inevitably experiences a certain risk, and by staying with the same insurer may receive certain benefits. While analysing the manifestations of such benefits, it is necessary to refer to Ch. Grönroos' conclusion on the triple benefit experienced by the loyal customer: 1) Trust: loyal customer knows well his service provider and is aware of what to expect from him. Therefore, when using the service, he does not worry about the quality of the received service and trusts his service provider. 2) Social benefit: usually customers feel pleased when the service provider recognizes them and communicates with them personally. The employee of a service providing company attending the same customer usually becomes his friend, and for that customer visiting his well known employee is more pleasant and secure than some unfamiliar service provider. 3) Exceptional customer service: loyal customers, of course, experience true benefit by receiving special discounts, extra services free of charge and extra attention² (Ch. Grönroos, 2001).

The above-mentioned reasoning of Ch. Grönroos, if applied to evaluate the benefits

of the insured and insurance companies, can help to draw a conclusion that customers of insurance companies appreciate most their trust in the insurer. The insured do not like to risk and worry whether the provided service meets his requirements and expectations, therefore, it is very important for them to have reliance on their insurer. The social relationship between insurers and the insured developing into a more personal and friendly relationship is important to the insured as well.

2. Theoretical analysis of the factors influencing loyalty of the insured

Insurance companies, before creating loyalty cultivation program and its implementation strategies, should evaluate how many truly loyal customers they have and what factors guarantee their loyalty. It is reasonable that certain authors, when analysing factors influencing the loyalty of customers, group those factors into these that stimulate and reduce loyalty. The mentioned grouping is shown in Figure 4. The loyalty of customers is influenced by the following positive factors: compliance with the needs of customers; designation of social-emotional factors; habits and solid experience in using services of the same company.

Thus, the insured choose the insurance company that is able to meet their requirements and expectations. If a customer of an insurance company is satisfied, he will probably extend his insurance police and may sign an insurance police of another insurance kind. Of course, only the customer who received unimpeachable customer service in case of insurance event would act so.

² Insurance business is rather specific, therefore, loyal insurers are very much interested in a quick and quality customer service in case of insurance event. As the size of the article is strictly limited, the author cannot discuss the peculiarities of insurance services. The thorough qualities of insurance services and detailed features of insurance service business may be found in the author's monograph "Draudimo paslaugų marketingas", 2002. P. 44–50.

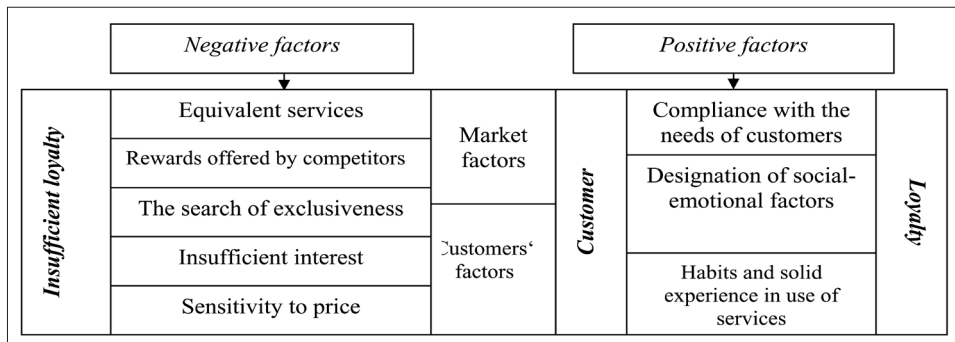


Figure 4. The model of customers' loyalty (Sheth, Mittal, 2004)

Insurance companies that inventively interact with their clients maintain social and emotional relations with them and win their trust and loyalty. The insured when evaluating social-emotional factors, most often correlate them with the overall activities of the insurance company.

The habits and experience obtained by using services of an insurance company over a long period of time also make a positive influence on the loyalty of the insured. The insured confirm their loyalty by extending their insurance policies and by using extra consultations constantly. Therefore, the insured gets used to the selected insurance company and does not want to change it.

The loyalty of customers is influenced by the following negative factors: 1) market factors: equivalent services and rewards offered by competitors; 2) customer factors: search for exclusiveness, insufficient interest and sensitivity to price (see Figure 4). Having in mind the specific features of insurance business, it is necessary to add that a poor and careless performance of managers in the claims settlement department has a strong negative influence on the insured loyalty

Insurers operating in the insurance market offer many analogous services on the same

terms. This fact contributes to a decrease of loyalty of the insured to one insurance company. A negative influence on the insured loyalty to the chosen insurer is made by the fact that nearly all insurance companies use almost the same rewards and stimuli, discounts, etc.

Loyalty of the insured also diminishes due to factors directly connected to their behaviour in the market. For instance, a certain group of the insured searches for insurers who offer exclusive services. The insured of such kind tend to change insurers more often.

Further on, this article will discuss mostly the insured loyalty influencing factors that directly depend on means applied by an insurance company. For example, the positive factor influencing the loyalty of the insured, depicted in Figure 4 – compliance with the needs of customers – includes many things that depend on the behaviour of the insurance company in the market, on its efforts and activities (the image of the company, its reliability, quality of services, prices, etc.). Therefore, some authors, according to specific researches, quite reasonably emphasize a tight dependence of the insured loyalty on their satisfaction with the insurance

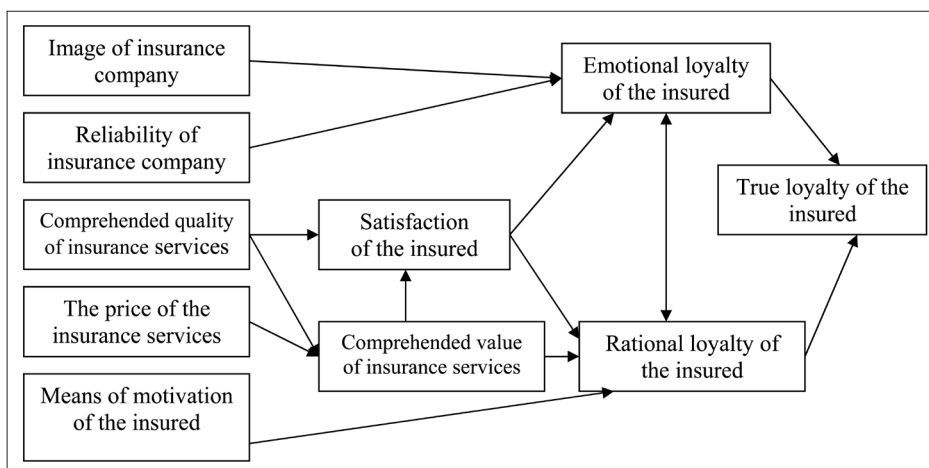


Figure 5. *A model of relationships between loyalty of the insured and their satisfaction*

services provided (Hill, Alexander, 2000). Indeed, if the insured is satisfied with the insurance services, he most probably will extend his insurance policy and may even purchase additional insurance policies, i.e. he remains loyal. Nevertheless, not every satisfied insurance customer is truly loyal to his insurer. Only a customer exceptionally satisfied with the received services will certainly extend his insurance policies and recommend his insurance company to his friends and relatives.

Figure 5, made by the author of this article, shows the factors influencing the loyalty of the insured and their satisfaction, as well as the relationship between satisfaction and loyalty.³

³ Due to the chosen logical structure and research progression of theoretical problems, the article disem-bodies factors and conditions related to the present social and economic situation, mentality of the insured, their mindset and behaviour, influencing the loyalty of the insured in Lithuania and other East European countries. All those issues are discussed by the author in his article "Teoriniai draudėjų elgsenos tyrimo aspektai ir jos apraiškos Lietuvos gyvybės draudimo paslaugų rinkoje", *Ekonomika*. 2008. Nr. 81. P. 62–68.

As is obvious from Figure 5, the emotional loyalty of the insured is influenced by the image of their insurance company and its reliability, as by well as their satisfaction which is also influenced by the comprehended value and quality of insurance services and means of motivation of the insured. The rational loyalty of the insured depends mainly on his satisfaction and the comprehended value of insurance services, which is also influenced by the comprehended quality of insurance services and their price. Finally, the true loyalty of the insured is determined by their emotional and rational loyalty.

Thus, the true loyalty of the insured is formed by such factors as the image of an insurance company, its reliability, the comprehended value and quality of insurance services, service price and the means of motivation of the insured.

The image of an insurance company is related to the main associations arising when mentioning the name of an insurance company or its services. The image of an insurance company is relatively stable and

does not depend on separate results of purchasing insurance services or on the contact of the insured with the insurer. Insurance companies usually create their image using their style and by their communication with the surrounding subjects. Thus, the image of an insurance company depends mainly on how the company cooperates and communicates with its clients.

The reliability of an insurance company is mostly determined by the stability of its financial situation. The financial situation of an insurance company is described by the acid-test ratio, i.e. the ratio of current assets less inventories to total current liabilities. The acid-test ratio demonstrates whether an insurance company has enough short-term assets to cover its immediate liabilities.

The comprehended quality of insurance services means that every insured has his opinion on the terms of insurance policy, the terms of insurance settlement, statements of insurance policy, as well as on the helpfulness of the operating staff, their relationship with co-workers, on the attentiveness to the insured and their requests, on the accessibility of insurance services, on help when signing the insurance policy, on the ability to answer promptly the questions of the insured, on the state of the insurance company's premises, on the psychological preference of being a client of the selected insurer, on whether the insurer is ready to change the terms of an insurance policy due to changed insurance risks, on whether the insurance company is able to modify rapidly its insurance products. All of the above-mentioned factors influence tremendously the confidence of the insured in the quality of insurance services, as well as their loyalty to their insurer.

Another important factor determining the satisfaction of the insured is the price of the insurance services (premium size). The latter is in close correlation with the comprehended value of insurance services. It reflects the ratio between the quality of the purchased insurance service and its price. This ratio is measured by two aspects: the size of price paid by the insured for an insurance service is evaluated, and the quality of the purchased insurance service is evaluated as compared to its price. When the values are comprehended, as compared to the comprehended quality of services, the influence increases, and then the price becomes an important means of satisfaction of the insured. Thus, the price of insurance services should be of the size that would not seem too high as compared to the benefit received by the insured.

Motivation means directly influence the rational loyalty of the insured. The overall scope of these means provide the insured with a double benefit: financial benefit (discounts, presents, etc.); social benefit (participation in festive occasions held by an insurance company, information means, greetings on holiday occasions, and so on). All this positively influences first of all the rational loyalty of the clients and then their true loyalty.

3. Theoretical issues of insured loyalty cultivation

Every insurance company should create its own system of loyalty cultivation of the insured according to the chosen target market of customers and to the situation in that market. It is important to ensure a better satisfaction of the insured against the

competitors. The insured will choose the company that, in his opinion, best satisfies his requirements and needs. An insurance company should know what its clients value most when creating its system of loyalty cultivation of the insured. On the other hand, the system of the insured loyalty cultivation should perform six functions formulated by service marketing specialists: 1) social motivation function based on respect and acknowledgment of the customer; 2) function of client satisfaction, attachment and compliance with his interests; 3) function of the received benefit comprehension; 4) customer problem solving function; 5) function of application of services to the needs and requirement of clients; 6) function of additional services provision (Kurtz, Clow, 1999).

It is advisable that the created systems of the insured loyalty cultivation conform to the above-mentioned six functions. Nevertheless, it is worth noting that the activities of insurance companies are being supervised by a special institution (in

Lithuania these functions are performed by Insurance Supervisory Commission of the Republic of Lithuania) and these activities are also regulated by Law on Insurance and insurance rules, etc., therefore, it is more difficult to implement specific needs of the insured, i.e. it is difficult to conform some special insurance products to the needs of the insured. From the methodological point of view, when creating a loyalty cultivation system, it is necessary to meet three essential conditions (ensuring service quality; market segmentation and selection of target markets; constant control of relationship) and to allow implementation of four strategies (financial motivation, social relationship, meeting of individual requirements, structural relationship) (see Figure 6).

When applying the strategies depicted in Figure 6, it is advisable to adjust the concept of their contents and some titles beforehand. The contents of the first strategy should be widened in order not to identify loyalty cultivation with financial motivation alone.

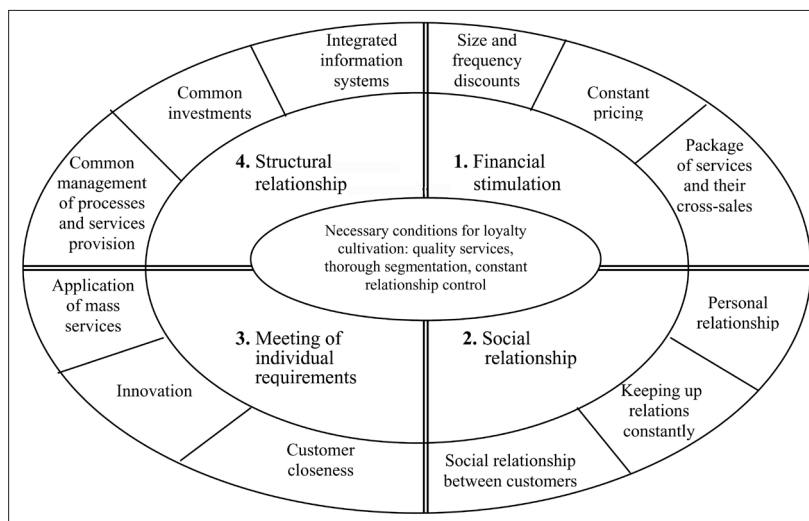


Figure 6. Levels of loyalty cultivation strategies (Zeithalm, Bitner, 2003)

The 1st loyalty cultivation strategy – motivation of the insured. The following motivation means should be applied for the loyal insured: discounts applied by insurance companies; small presents; endowment of privileges; exceptional attention to the insured.

The 2nd loyalty cultivation strategy – creation of social relationship. When implementing this strategy it is necessary to have in mind that it is impossible to create a relationship between the insured due to insurance services and their individual (and not collective) use. Therefore, it is advisable to concentrate on the development of personal relationships between the insured and the insurance company's employees. Employees of insurance companies communicate personally with every client by consulting, signing insurance policies, settling claims on the occurrence of insurance events. Therefore, insurers have a plenty of possibilities to develop personal relationship with their insured. However, such relationships do not develop automatically.

It is necessary to apply a system of virtues of culture oriented towards loyalty.

The system of insurance company's virtues comprises honesty, good mood, self-knowledge, personal contribution, responsibility (see Figure 7).

In the culture of an insurance company, the loyalty "climate" should prevail – all activities should be dedicated to cultivation of loyalty. The latter involves not only loyalty of the insured, but also the cultivation of employees' loyalty or loyalty of insurance company's partners. Virtues depicted in Figure 7 should create such a "climate" in an insurance company when employees are satisfied with their work in this company and clients are satisfied by the company's services.

The 3rd loyalty cultivation strategy – meeting of individual requirements of the insured. When implementing this strategy in insurance companies it would be advisable, wherever possible, to individualize typical insurance rules adapting them to important customers. However, it is impossible to implement this strategy widely in insurance business. The implementation of this strategy is most often related to insurances of large and specific risks. On the other hand,

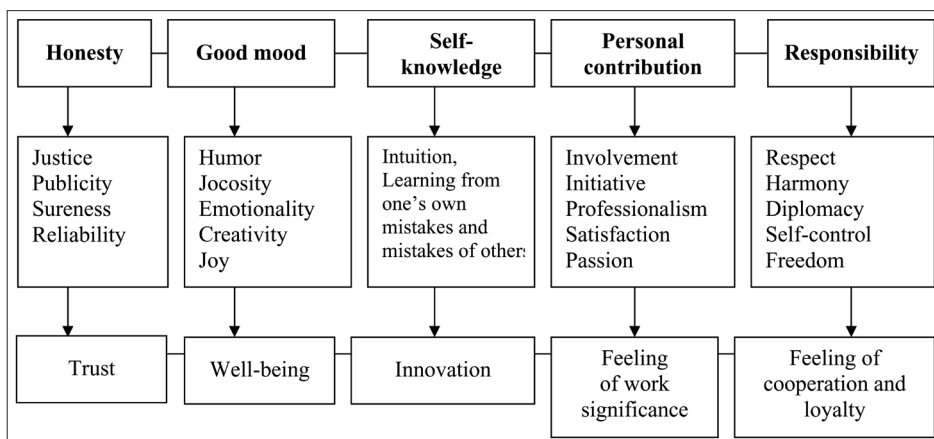


Figure 7. *Virtues of culture oriented towards loyalty*

it is necessary to get closer to the insured by offering packages of insurance services, i.e. the main insurance product accompanied by several other additional services. Moreover, insurance companies should pay more attention to their clients, spend more time on consultations before selling of an insurance product and after that, on occurrence of insurance event.

The 4th loyalty cultivation strategy – creation of structural relationship. The implementation of this strategy is directly related to adjustment of implementation activities and measures of all four strategies. In other words, when creating a structural relationship, it is necessary to adjust it to the implementation of the social relationship motivation strategy of the insured and the strategy of meeting individual requirements. Structural relationship is created by provision of services applied to the exceptional insured that other insurers do not provide. Structural relationships could be created by insuring specific risks that other insurers do not insure.

Conclusions

1. When analysing theoretical issues of the insured loyalty, it is necessary to determine their essence. Loyalty of customers of insurance companies (the insured) is a loyal behaviour of the insured (continual use of services of the same insurance company); the emotional loyal attitude of the insured to the selected insurance company (attachment to the same insurer and remaining faithful to him as compared to other competing insurers) and voluntary recommendation of services of that selected insurer to friends, relatives and acquaintances.
2. While analysing the benefits of the loyal insured, theoretically it becomes obvious that, first of all, their true loyalty is beneficial to their insurer and, secondly, to the insured themselves. An insurance company's benefit occurring due to the truly loyal customers is revealed by the facts that: 1) the profit of insurance companies is increasing due to the growing sales of insurance services; 2) the profit and income of insurance companies is increasing due to the diminishing customer servicing costs; 3) the profit of insurance companies is increasing due to the loyal customers' voluntary dissemination of favourable information about their insurer to friends, family, acquaintances and so on; 4) the profit of insurance companies is increasing because loyal customers raise no objection to the fact that the prices of the insurance services sold to them are higher than the prices suggested to new customers. The loyal insured experience triple benefit themselves: 1) they have absolute reliance on their insurance company and its services; 2) they experience social benefit while receiving impeccable servicing and exceptional attention that their insurer pays to them; 3) they experience actual benefits due to the applied discounts and additional services provided to them free of charge.
3. Theoretical analysis of the factors influencing the loyalty of the insured revealed certain factors that have both a positive and a negative influence. The loyalty of the insured is influenced by the following positive factors: compliance with the needs of customers;

designation of social-emotional factors; habits and solid experience in using services of the same company. The loyalty of the insured is influenced by the following negative factors: 1) market factors (equivalent services and rewards offered by competitors); 2) customer factors (search for exclusiveness, insufficient interest and sensitivity to price; 3) insurer's (the very insurance company) factors (poor and careless customer servicing by managers of the claims settlement department).

4. When analysing theoretically the factors influencing the loyalty of the insured from the methodological point of view, it is important to distinguish emotional loyalty, rational loyalty and true loyalty. In the course of the analysis it became obvious that the mentioned kinds of the insured loyalty are influenced by different factors. Emotional loyalty of the insured is influenced by the image of their insurance company and its reliability, as well as by their satisfaction which is also influenced by the comprehended value and quality of insurance services and means of motivation of the insured. The rational

loyalty of the insured depends mainly on the satisfaction of the insured and the comprehended value of insurance services, which is also influenced by the comprehended quality of insurance services and their price. The true loyalty of the insured is formed by such factors as the image of the insurance company, its reliability, comprehended value and quality of insurance services, service price and the means of motivation of the insured.

5. It is important to ensure that the created system of the insured loyalty cultivation performs the following functions: social motivation, trust of the insured, solution of customer's problems, application of services to the needs and requirements of the insured, provision of additional services.
6. When solving the problems of customer loyalty cultivation systemically, insurance companies should create and implement the following strategies: 1) financial motivation of the insured; 2) creation of social relationship; 3) meeting of individual requirements of the insured; 4) creation and development of structural relationship.

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