

TELE-INSURING: NEW POSSIBILITIES FOR CUSTOMER-ORIENTATION

BY HARALD F.O. VON KORTZFLEISCH*, UDO WINAND**; UNIVERSITY OF KASSEL, GERMANY

CUSTOMER-ORIENTATION AS STRATEGIC IMPERATIVE

Clearly, one of the most important strategic imperatives for companies in the financial service sector in general, and especially in the insurance industry is customer-orientation, in particular due to current structural changes in the insurance industry (see empirica 1995; Prokop 1996):

- ◆ The high intensity of the (Europe-wide) competition, measures of deregulation, and coming along with these structural changes the decline of prices lead – beside the need for cost reductions and low-priced offers – to the necessity to gain new customers in order to expand the quantity of business.
- ◆ The growing number of concentrations (mergers/acquisitions) in the insurance industry makes high demands on the care of old, in-force business customer relations, and on a coordinated appearance in the market.
- ◆ The loosing transparency regarding the composition of products, and the appropriateness of prices being offered result in high demands on the explanation of products and prices to the customers.
- ◆ The establishment of specialized and new, partly not from the financial service sector coming insurance companies emphasizes the necessity to demarcate clearly from competitors, and to offer services which take the individual needs of the customers even more into account.

Against this background, it seems very likely to think about the potentials of new media, information and communication technologies to improve customer-orientation in the insurance industry. This is all the more true as beside the rationalization of business processes (see Eschner and Nestler 1994), the improvement of

** Dr. Harald F.O. von Kortzfleisch (kortzfleisch@wirtschaft.uni-kassel.de) is Senior Lecturer and Researcher at the Chair for Business Informatics of the University of Kassel, Germany. His research focuses on the inter-relationship between strategy, new organizational structures and the use of new media and communication technologies, especially against the background of knowledge-based competition and in the education business.*

Other research interests are interorganizational systems, virtual organizations, and knowledge management.

*** Professor Dr. Udo Winand (winand@wirtschaft.uni-kassel.de) holds the Chair for Business Informatics of the University of Kassel, Germany. His research focuses on the use of new media and communication technologies such as Internet and Intranets in companies with an actual focus on trust in Electronic Commerce. Other research interests are Petri Nets, databases, and the philosophical foundations of new media applications.*

customer-orientation is one of the main goals of underwriters when implementing these new technologies (see Frese and Theuvsen 1996). In addition to that, the financial service sector is one of the earliest users ('pioneers') of any new kind of information technology and therefore best suited for the use of new media and communication technologies, too (see Wieland 1993).

TELE-INSURING

The main characteristic of tele-insuring is self service. According to figure 1, two technology/location-driven variants of self service via tele-insuring can be distinguished (see Verband 1994):

1. So-called 'tele-insuring centers', i.e. multimedia self service terminals in:
 - a) non expected places, for example railway stations, airports, shopping malls, gas stations, trains, travel agencies, car rentals, hotels, post offices, private or public office buildings;
 - b) more common places, such as insurance agencies, insurance offices, or branch banks of the one shop-shopping associations.
2. 'Home-insuring', i.e. customer self service from home (and/or work place):
 - a) television-based (audiotext, dynamic videotext, interactive videotext, interactive/business television);
 - b) internet/ WWW-based or online services-based.

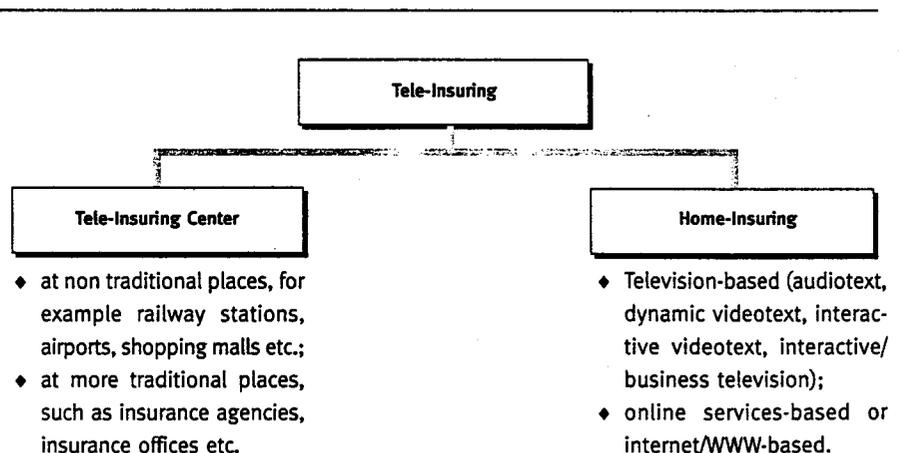


Figure 1 Technology/location-driven variants of tele-insuring

The potentials of tele-insuring centers highly depend on the kind of products being offered, and the target groups being faced, as far as both are influenced by the locations of the self service terminals (Verband 1994). Locations with high numbers of visitors/'casual customers' (e.g., airports, railway stations) are unsuitable for qualified and complex business, and for the target group of policy in force-customers, too. This is due to the fact that these locations do not offer the adequate anonymity and the required quiet atmosphere. The mentioned locations are only suitable for tele-insuring centers if the terminals call the customer's attention to her or his needs, and if the offered products/services are able to meet the immediate demands (e.g., travel insurances at an airport). The use of tele-insuring centers is more promising at locations like car rentals, car dealers, car registrations, or travel agencies because the customer might need insurances to complete the products or services she or he is going to buy. The opportunity to purchase insurances at the same location as the customer purchases the other products or services might be seen as an supplementary and pleasant service from the customer's perspective. Due to the low degree of explanatory requirements, the so called 'simple business' or bulk lines (e.g., travel insurances, car insurances, or accident insurances) are very appropriate to be offered at these locations by tele-insuring centers.

In general, more than 50 % of private households use standard videotext, which makes it very attractive for home-insuring. However, it has to be mentioned that the kind of normal use of videotext is passive, comparable to the normal way television is used ('gogglebox'). Audiotext, dynamic videotext, and interactive videotext require an active user behavior, which makes a big change necessary towards (inter)activity in the behavior of the traditional television 'viewer'. In addition to that, the building of videotext pages is text line-oriented, and very slow which might influence the acceptance of

videotext-based home-insuring negatively. Still, television, online services, and/or internet will grow together, and if interactive/business television will become more prominent in private households/companies, than this will in sum lead to a comparable potential of television-based home-insuring and online services-based or internet-based home-insuring.

In Germany, only one insurance company offers home-insuring via dynamic videotext, i.e. Hannoversche Leben (see de

REFERENCES

- Birkelbach, J. "Versicherungen gehen ins Internet. US-Unternehmen dienen als Vorbilder - Qualität der deutschen Angebote oft sehr dürftig", in: *Die Welt*, No. 17, September 11, 1995, p. 22.
- Empirica "CAPACities. Consolidated Actions of Public Authorities for European Cities in the New 'Information Society'", Workingpaper of empirica GmbH, Bonn 1995.
- Engelhardt, W.H. "Qualitätspolitik", in: Tietz, B. (Ed.): *Handwörterbuch der Absatzwirtschaft*, Stuttgart 1974, col. 1799-1816.
- Eschner, K. and Nestler, A. "Strategische Neuorientierung und Prozeßoptimierung bei der Allianz Versicherungs-AG", in: Frese, E. and Maly, W. (Ed.): *Organisationsstrategien zur Sicherung der Wettbewerbsfähigkeit. Lösungen deutscher Unternehmungen*, Zeitschrift für betriebswirtschaftliche Forschung, Sonderheft 33, Düsseldorf 1994, pp. 33-45.
- Frese, E. and Noetel, W. "Kundenorientierte Organisationsstrukturen in Produktion und Vertrieb - Konzeption und ausgewählte Ergebnisse einer empirischen Untersuchung", Arbeitspapier des Betriebswirtschaftlichen Instituts für Organisation und Automation an der Universität zu Köln (BIFOA), Köln 1990.

Gast and Moharrer 1995). In the Netherlands, only the Central Beheer, the leading direct insurance company offers home-insuring in a comparable way (see Verband 1994; Hywel 1995). To summarize, home-insuring on the basis of videotext is not widely spread, and seems to be not very attractive.

Concerning international online services, only very few insurance companies are present on services like AOL, CompuServe, or MSN. Referring to national online services, more or less all large-scale French underwriters use Minitel, for example. The spectrum of products being offered reach from advertising information to the possibility of taking out policies. However, Minitel is text line-oriented, i.e. the user interface is not very appealing. In Germany, circa 50 underwriters are present on T-Online, the German online service which is primarily used for tele-banking. Advertising and detailed information about products, calculation examples, or possibilities to request documents or forms are the dominating services being offered. Evaluations show that the quality of the contents being offered and the graphical user interface of T-Online are not much appealing to customers (see Birkelbach 1995).

The Internet/World Wide Web (WWW) is by far the most accepted platform for underwriters. The 'Web Hotlist of Insurance and Reinsurances' (WHIRR; <http://www.cyberspace.com>) gives an overview of some hundred American and Canadian insurance companies which are on the internet/WWW, for example (see also Forrer and Thomas 1995). The URL <http://www.wi2.wiso.uni-goettingen.de/versich> lists almost 120 German insurance companies. The spectrum of products and services being offered comprises all kinds of insurance fields (e.g., car, life, household, companies etc.), different levels of business process integration (e.g., simple company presentation, product information, feedback, online ordering, online payment, online delivery) and many other additional information (e.g., games, calculators to

download, weather information etc.). Last but not least, due to the growing importance of the internet/WWW as the 'information highway', and as the common denominator for online services, too the internet/WWW will be the accepted platform for tele-insuring.

POTENTIALS OF TELE-INSURING

TO SUPPORT CUSTOMER-ORIENTATION

The strategy of customer-orientation in general characterizes the pretension to submit products or services which are optimal in price, right in time, corresponding with the customer's diction, and cut to the individual circumstances of customers (see Link and Hildebrand 1993). Due to today's situation of competition, these requirements refer not only to tailor-made products but also to the production in bulk, i.e. with highly standardized products ('mass customization'; see Kotha 1995).

Strategic success factors of customer-orientation in the field of the insurance business are as follows (following Lassmann 1992):

- ◆ the quality of the insurance product ('quality management'),
- ◆ the level of the supply service (especially requirements of the (information) logistics),
- ◆ the extent of customer nearness (from standard insurances without variants to insurances which are completely specified by customers) and
- ◆ the quality of customer service/ aftersales field; within that field the level of the supply service and the individuality within that field ('the whole of service orientation').

The quality of the insurance products as the customers see it, is a noticeable buying criterion. The marking of that criterion makes a contribution to the singularity of the offer. Quality is not only understood as the totality of use-related attributes/characteristics of an insurance service (e.g., appropriate coverage of risks, effectiveness in case that a damage occurs), that refers to the fulfillment of given technical insurance requirements. In ad-

Frese, E. and Theuvsen, L. "Innovation in Organization Design: A Cross-Cultural Analysis", Arbeitspapier des Lehrstuhls für Allgemeine Betriebswirtschaftslehre und Organisationslehre der Universität zu Köln, Köln 1996.

Forrer, Ch. and Thomas, G. "Financial Services @ Internet", Institut für Versicherungswirtschaft der Universität St. Gallen, St. Gallen 1995.

de Gast, M. and Moharrer, M. "Ein Lückenbüßer macht Karriere. Werbung in der Austastlücke: Das hochwertige redaktionelle Umfeld, die vielfältigen Werbemöglichkeiten und die günstigen Preise machen den RTL-Text bei der Werbewirtschaft immer beliebter" in: Teleimages, 1995, No. 1, pp. 44-47.

Hywel, Th. "Alternative Distribution Strategies: Best Practice Examples in Financial Services. A Financial Services Management Report", ed. by SCG St. Gallen Consulting Group, St. Gallen 1995.

dition to that, the term quality also covers esthetical aspects ('charm') of the product design and presentation (e.g., the make-up of prospects, journals, forms, business reports, or insurance files), or the gain of prestige that an insurance company can convey to its customers (see Engelhardt 1974). Further more, the price can be interpreted as an economical expression of the estimation of quality of an insurance service, and thereby can be defined as a characteristic of quality (price/performance-relationship).

After all, new media and communication technologies such as the internet/WWW are only means to transport the purpose of insurance protection within the scope of tele-insuring. So far they have no influence on the use-related attributes or characteristics of an insurance service. On the other hand, the possibilities of multi-

media presentations of insurance services rate high. The immaterial character of insurance products compels to be on the look-out for possibilities that go beyond the pure verbal, respectively textual description of the products, and contribute to the charm of the products by using life-oriented representations/metaphors. Here, multimedia offers totally new possibilities especially through the potentials of 'virtual reality'. Prestige in connection with an insurance product can be gained because of the customer valuing the use of tele-insuring as very progressive in a positive sense. ("My insurance company is up to date of technology usage"). In addition to that, other persons surrounding the customer can find it interesting, too that the customer - and thereby indirectly the insurance company - is so 'up to date' that she or he communicates with the insurance company through new media and communication technologies. In case that insurance companies are able to realize the economic potential benefits which can come along with tele-insuring (especially reduction of distribution costs and speed up of process time), low prices as a result of that can also lead to an increase of the quality of insurance products.

The competition priority supply service - also designated as 'availability' - emphasizes the distribution output or outward logistics, respectively of an insurance company. The supply service essentially consists of:

- ◆ the supply time (space of time between the placing of an order by the customer and the receiving of the insurance policy),
- ◆ the supply reliability (probability of adherence to the promised handling and delivering time),
- ◆ the supply exactness (according to kind, amount, and considered facts such as prices or conditions), and
- ◆ the supply flexibility (spontaneous consideration of special needs of the customers (e.g., changing of payment proceedings or life of a policy) within the scope of the hand over system of the insurance company).

Concerning the improvement of the supply service, tele-insuring offers basic starting points. As discussed several times above, the advantages of tele-communication in general just lie in the rapid transfer of information, so that the supply time within the scope of tele-insuring can be sped up, e.g. through the online-delivery of brochures or policies.

An improvement of the supply reliability through tele-insuring can be expected, if technical problems can be avoided that could affect the online-communication. At the same time it has to be considered that the organizational processes are decisive for the supply reliability, that back the handling and delivering of new insurance applications. A technical reliable medium actually is no guarantor for a reliable online-delivery of insurance products.

Effects on supply exactness and flexibility can not be derived from the original potentials of tele-insuring, but require use-related technical extensions. A high supply exactness is then reachable, when the programs itself automatically take care that forms are filled out completely and further processed without any manual, paper document bound tasks. The probability that errors occur decreases, and the supply exactness increases.

Supply flexibility can only be increased when tele-insuring programs offer appropriate space. It has to be considered that any kind of space represents a kind of 'standardized flexibility', i.e. they have to be programmed like this within tele-insuring applications. If this is not true, the use of tele-insuring leads to a high inflexibility. In addition to that requires technical flexibility always an appropriate organizational flexibility, too. This means that processes have to be designed in a way that changing wishes by the customers can be handled by the insurance employees, too.

Multimedia causes positive effects concerning the supply service, here: the supply exactness, when the use of the mani-

Jugel, S. and Zerr, K. "Dienstleistungen als strategisches Element eines Technologie-Marketing" in: *Marketing Zeitschrift für Forschung und Praxis*, Vol. 11, 1989, pp. 162-172.

Kotha, S. "Mass Customization: Implementing the Emerging Paradigm for Competitive Advantage" in: *Strategic Management Journal*, Vol. 16., 1995, pp. 21-42.

Lassmann, A. "Organisatorische Koordination. Konzepte und Prinzipien zur Einordnung von Teilaufgaben", Wiesbaden 1992.

Link, J. and Hildebrand, V. "Database Marketing und Computer Aided Selling. Strategische Wettbewerbsvorteile durch neue informationstechnologische Systemkonzeptionen", München 1993.

Prokop, H. "Versicherungswirtschaft im Wandel - Telekommunikation im Veränderungsprozeß der Versicherungsunternehmen", in: Ewerdtalbesloh, G. (Ed.): *Telekommunikation für Banken und Versicherungen - Finanzdienstleistungen im Wandel*, Vorträge der am 19. Juni 1995 in München abgehaltenen Fachkonferenz, Berlin et.al. 1996.

Verband der Lebensversicherungs-Unternehmen e.V., Ausschuß für Betriebstechnik (1994) "Electronic Insuring", *Ergebnisbericht Nr. 38*, o.O. 1994.

Wieland, B. "Telekommunikation und Industriestruktur. Das Beispiel des Bankwesens", *Habilitationsschrift, eingereicht bei der Wirtschafts- und Sozialwissenschaftlichen Fakultät der Universität zu Köln*, Köln 1993.

fold representation forms of information leads to a better understanding of policies, certificates, or other documents like insurance conditions compared to presenting these information on paper.

The dimension of customer nearness can be distinguished between an indirect re-

lation to the customer and a direct customer relation. In the case of indirect customer relations, order-specific information of a customer only trigger (standardized) processes at the insurance company, whereas in the case of direct customer relations the quality of components and/or supply conditions of insurance services will individually be negotiated ('custom-made solutions'). This gradation of customer nearness can be illustrated as follows (see Frese and Noetel 1990):

- ◆ standard insurances without variants;
- ◆ standard insurances with variants (standard components; modules);
- ◆ insurances with customer-specific variants;
- ◆ insurances by customer specifications.

In the case of standard insurances without variants an indirect customer-orientation exists, whereas in the other cases the degree of direct customer-orientation increases according to the named sequence.

Tele-insuring especially is suitable for the business with standard insurances without/with variants, because the use of new media and communication technologies always requires standardization in order to program applications. In the case of insurances with customer specific variants, and of insurances by customer specifications the increasing degree of direct customer relationships requires a much higher flexibility and intensity of the communication/interaction, and a higher level of 'richness' of the communication compared to the - usually time-asynchronous - 'back and forth sending' of texts/e-mails. The richness of the communication, that is finally expressed in the combination of text, picture, audio, and video can be realized by using technologies such as picture phones or videoconference systems. However, using communication rich media can not totally replace personal face-to-face communication.

The importance of the customer service is increasingly emphasized as a strategic competitive element (see Jugel and Zerr

1989). Secondary services often just provide the problem solving character of an insurance offer, which makes it ready for the market and discernible from products of competitors. In the scope of customer service the following starting points for customer-orientation are presented that can lead to an increase of the benefits for the customer (see Lassmann 1992):

- ◆ the offer of optional secondary services;
- ◆ a high level of quality and supply service in the area of secondary services;
- ◆ the offer of (customer-)individual secondary services.

The spectrum of services in the field of customer service can be differentiated between obligatory and optional secondary services. Secondary services can be named obligatory when they are ordered by law, or when they are very common in the market or industry concerned, respectively. Optional secondary services are voluntary, i.e. they go beyond customary in the industry concerned. Therefore an insurance company can reach a high degree of customer-orientation only through the offer of optional secondary services (see Jugel and Zerr 1989).

Tele-insuring can be interpreted as an optional secondary service. At the moment, an offer like that certainly goes beyond the standard customary in this industry. In addition to that, not only obligatory but also optional secondary services can be communicated and transported by tele-insuring. For example, information of any kind, e.g. 'tips and tricks' in connection with taxes, questions of security, or perhaps the snow- and road-holding report at winter can be offered. Besides it can be imagined that insurance games or insurance-related learning software for students can be provided. Also, the permanent time- and room-independent availability of an insurance company or of an online-accessible agent via tele-insuring can be understood as an optional secondary service.

Independent of being obligatory or optional secondary services, the quality and supply service standard in the field of customer service (e.g., time for handling, thoroughness/reliability, appearance) offers further possibilities to improve customer-orientation. The related existing possibilities of tele-insuring can analogously be transferred from the foregoing arguments concerning the quality of the insurance products, and concerning the supply service. Therefore they will not be specified again.

Moreover, a high customer-orientation is possible by an individualization of the secondary services. Customer individual consultation or training are examples for high customer nearness in the field of secondary services. Especially tele-insuring offers a high support potential for such a kind of customer individual secondary services. For example, individual questions and problems can be answered and solved quickly, vividly, and clearly – as far as they cannot already be answered by online available answers within so-called 'frequently asked questions' lists (FAQs).

CONCLUSIONS

Since the benefits of tele-insuring in terms of improving customer-orientation are obvious, and since many underwriters are already on the internet/WWW we do not have to discuss whether insurance companies should offer tele-insuring or not, any more. It becomes clear that both distribution channels, tele-insuring and traditional 'relationship insuring' have to be provided in order to serve customers needs.

Along with the increasing use of tele-insuring in order to reach customers directly and interactively, the customer interface virtually shifts towards the customer. The reason therefore is that tele-applications allow private customers:

- ◆ to act time-independently (24 hours; 'day and night'),
- ◆ to act room-independently (from wherever she or he has tele-access),
- ◆ to actively surf/demand many information/problem solutions, and most importantly

- ◆ to be more (inter-)active concerning start and realization of business processes than they were before (e.g., filling out forms, placing orders, choosing payment alternatives, carrying out transactions etc.).

As a result of tele-insuring as a new and/or additional distribution channel, processes within insurance companies and within private customer's households will change. Looking at the customer side, manual tasks like doing phone calls, making notes, writing letters, making copies, storing copies, folding letters into envelopes, putting stamps on envelopes, bringing letters to post offices, etc. are more or less replaced by tele-insuring-applications. Concerning underwriters, related processes like sorting the mail, distributing the mail to related professionals, getting the mail out of the professional's mail boxes, typing customer dates into data bases, etc. will also be replaced by tele-insuring-applications. These kinds of changes are incorporated in the concept and appropriate use of tele-insuring.

Tele-insuring stands for an (additional) investment for insurance companies in the sense of setting up a new electronic distribution channel. This is not only true for direct insurances which will use phone-based call centers and telefax, for example but also true for underwriters which will use tele-insuring as an supplementary channel of distribution; in principle, it is not correct to proceed on the assumption that traditional channels of distribution (e.g., exclusive agents, free agents, brokers) will totally be replaced by tele-insuring. In order to implement tele-insuring as an economically feasible investment it is necessary to use the economic potentials which come along with tele-insuring, i.e. potentials to reduce costs and time as well as to improve quality. Especially it is necessary to implement the new organizational process changes mentioned above.