

Final Report

Katie School of Insurance Research Grant

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Project title: Performance and Service Quality in the Private Passenger Automobile Insurance: Consumer Satisfaction Study

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The research was completed and presented at the 2001 International Applied Business Research Conference held in Cancun, Mexico in March, 2001. Also, the article was published in the conference proceedings. A copy of the published paper is attached along with an one page executive summary. My plan is to re-estimate the model and submit a revised paper to an academic journal. The financial support from Katie Insurance School and the Illinois insurance industry is greatly appreciated.

Executive Summary

The study deals with the consumer satisfaction and the service quality of the private passenger automobile insurance that accounts for over 40 percent of the total premiums written in the US property and casualty insurance industry. It is designed to identify the characteristics that influence the service quality of automobile insurance. Previous studies on the subject seem to explore the issue of performance and service quality separately. This study argues that a firm's performance and service quality are interrelated and should be jointly determined. Therefore, the study employs a simultaneous equation model in that all endogenous variables are determined jointly. The model includes a service quality equation and a premium-growth equation. Complaint ratios are used as a proxy to measure the service quality of automobile insurers.

In this study, a primary emphasis is on the Illinois automobile market and it is compared to the New Jersey automobile market. Illinois and New Jersey are very similar in market size. Illinois is known as a typical state where the regulatory environment allows the marketplace to determine insurance rates, whereas in New Jersey the regulatory environment restricts price competition. Consequently, New Jersey consumers seem to pay higher premiums in the nation and recently a new auto reform legislation was introduced in the state to roll back of 15 percent of premium for most insured motorists. The basic research question in this study is to know what types of firms are likely to produce more or less consumer complaints.

The 1996, 1997 and 1998 data for Illinois and New Jersey were collected for the model: complaint ratio, firm specific characteristic variable, net premiums written, marketing system, organizational form, financial rating, underwriting expenses, concentration ratio, and combined ratio. The empirical result of the study indicates that most financial variables have no significant impact on the service quality. An organizational form (stock vs. mutual) and a marketing system (direct vs. independent agents) were found to have little impact on the consumer satisfaction or the service quality. Also, the research found no major significant difference between Illinois and New Jersey as far as consumer satisfaction is concerned.

There are four major reasons of complaints: claim handling, underwriting, policyholder service, and marketing & sales, according to a complaint form used by the Illinois Insurance Department. It is interesting to note that seventy-three percent of all complaints were in the area of claim handling. When policyholders have a claim to be filed, they contact their agents and are referred to a local or regional claim office. Therefore, I suggest that a future study on the subject of service quality should address the claim handling issue, and try to identify what types of claim handling procedures can affect or enhance service quality in the automobile insurance.