P&C National Underwriter

Flight To Quality Might Be Bumpy Ride For Buyers

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Published 4/20/2009

Economic events over the past year have shaken consumer confidence to its core. In the financial services industry, even the calmest and most level-headed consumers have been rattled by the month-to-month parade of bad news.

This recession—and its effect on the consumer psyche—is very different than any downturn we've seen in the past half-century, presenting interesting challenges for financial institutions seeking to benefit from the inevitable "flight to quality."

At issue is just how consumers will determine which financial services providers truly represent "quality," as events of the past year have really complicated that judgment call. Consumers see a market littered with the carcasses of once mighty financial giants, including:

- **Companies whose identities centered around their financial strength** that are now being propped up with government assistance.
- **Firms that highlighted their longevity,** touting their heritage of protecting consumer financial interests, now scrambling to acquire banks and become eligible for federal capital injections.
- **Institutions that repeatedly tried to reassure** customers and investors of their financial strength nevertheless ended up on the ropes.
- **Insurers that long emphasized their conservative risk management** and product pricing principles are hurriedly revisiting their paradigms in the face of investment losses, deferred acquisition cost charges and other write-downs.

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Further muddying the waters for consumers is deteriorating confidence in the rating agencies. The value of "triple-A" and other top financial strength ratings has been diluted, given how such highly rated institutions have fared in this downturn.

This has brought all the standard criticisms of ratings agencies back to the forefront—including conflicts of interest, hesitations to downgrade, ratings that lag other market indicators, etc.

In the past, consumer perceptions of quality, strength and stability were appreciably influenced by indicators like financial ratings, company longevity and public pronouncements of conservatism.

But what about now, when so many firms that possessed these characteristics find themselves in the headlines in a decidedly negative context? What indicators will consumers turn to as they seek out new financial services providers—or reevaluate their relationships with existing ones?

It's not an easy question to answer, particularly while we are still in the midst of the economic storm that has precipitated these changes in the consumer mindset.

What is likely, though, is that financial firms' tried and true approaches for engendering consumer trust will no longer be adequate in the new world. It's going to require something more.

That something is what professional marketers would call "emotional engagement"—the notion of forging a connection with the consumer that transcends rational behavior.

Company-consumer relationships that incorporate strong emotional ties are generally more robust and resilient. They foster consumer confidence and trust, generating an intense level of loyalty that can sometimes even overshadow rational considerations (such as product price) that might otherwise weaken the relationship.

In the future, to overcome consumers' psychological scars from the financial meltdown of 2008, successful institutions will need to deliver flawlessly on basic aspects of their value proposition as well as create a positive emotional connection with their customers.

In its totality, this means delivering a distinctive and compelling consumer experience. That's not easy, but it can be done. Here are some tips for institutions positioning themselves for the flight to quality in this new environment:

• **Pony up the table stakes.** While financial ratings, company longevity and conservative investment principles may not carry the same weight as in the past, they still represent important data points for consumers. However, these traditional differentiators will now need to be complemented with, and reinforced by, other characteristics.

• **Nail the basics and stop worrying about the relationship.** Companies spend millions of dollars on fancy customer relationship management systems to enhance their service and create greater consumer intimacy. While these systems have their place, in most cases, customers aren't aspiring to have a relationship with the firms they patronize. First and foremost, they just want the products and services they buy to work right—as they expected, and as they were promised.

It sounds ridiculously simple, but with aggregate measures of consumer satisfaction stagnating for the last 15 years (and actually declining for the insurance industry), there are plenty of firms out there that aren't even getting the fundamentals right.

• **Be authentic.** With the basics nailed, and pure operational execution leaving a strong, positive impression with customers, it's appropriate to further enhance the experience by capitalizing on sources of emotional engagement.

This is where managing the relationship becomes more relevant—in terms of communicating regularly, clearly and candidly with customers (in contextually sensitive ways), as well as identifying and addressing needs they might not have realized they had.

Authenticity isn't derived from corporate taglines—especially those that change every few years. Rather, it's continually signaled through every manifestation of a company's brand and every interaction with the consumer—from the first interactions with a prospect, all the way to handling of customer defections.

• **Stand for something that people can believe in.** The biggest driver of emotional engagement is something that's often overlooked in companies' haste to generate customer intimacy with traditional CRM tools, such as contact management and e-mail marketing systems.

Again, these tools have their legitimate uses, but they can't hold a candle to the emotional engagement that ensues when a company crisply defines its essence—its reason for being—in a way that resonates perfectly with its target audience.

It doesn't mean that their products and services will appeal to everyone—but it does mean that, for the right people, their offerings will inspire and engage in a way that becomes the envy of all competitors.

It also doesn't mean they are completely insulated from downturns, but given the engagement they create, they will be more resilient—representing one of the last places that consumers will cut back and one of the first places to which they'll return.

Others can debate whether the turmoil in the financial services industry could have been avoided, or at least mitigated, with more independent rating systems and better company disclosure. Whatever the cause of this turmoil, it has ushered in a new reality and a new era of consumer cynicism.

In a time when the term "bailout" is inextricably linked to the financial services industry, overcoming consumer cynicism will not be easy. Firms that previously relied on their long heritage, financial strength and conservatism to reassure clients must rethink their approach.

Increasingly skeptical and informed consumers will seek out additional clues to shape their impressions of current and prospective insurance providers.

To help ensure those clues lead to your firm's doorstep, step away from the old rules, think carefully about what your organization stands for, and start crafting a reliable, engaging consumer experience that will cultivate trust, confidence and loyalty in good times and bad.

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