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FACULTY OF MANAGEMENT AND GOVERNANCE  
MASTER OF BUSINESS ADMINISTRATION

## Graduation Thesis

# To Inventorize the Perceived Service Quality of the A.s.r. Intermediary

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## ABSTRACT

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After a number of recent financial affairs in the Netherlands the Dutch Ministry of Finance created the Financial Markets Amendment Decree on the 1<sup>st</sup> of January 2013 with the intention of improving the knowledge and understanding of financial products by consumers as well as increasing the quality these products and the given advice. An important part of this Decree was that financial intermediaries would be prohibited to receive any form of commission for the products they are advising from the insurance company or provider of those products. The Dutch Ministry of Finance forged a separation between the financial product and advice and obligated financial intermediaries to charge their customers directly for the latter. The enforced changes in the remuneration system will require a significant turnaround in the business operations of the insurance intermediary as the financial advice will no longer be “hidden” as part of the whole insurance product but should be a distinct charge on the invoice of the consumer.

The Dutch insurance group a.s.r. conducts a large part of its business through independent intermediaries. The aforementioned changes will therefore have a significant impact on a.s.r. as well. A.s.r. will use this graduation research to help the intermediaires that are struggling with the recent changes and that are searching for ways to better coop with the new forms of remuneration. A solid first step in helping these intermediaries is to evaluate how their customers perceive the service and service processes. Is the intermediary actually delivering quality services? The goal is to come up with a model to evaluate the quality of the service model currently used by the intermediary. As a first test group this study will be used as an addition to an existing support class given by a.s.r.; the Cedep master Class. The research question answered in this thesis is *‘How can the quality of the services and service processes of the 2013 a.s.r. Cedep intermediaries be inventorised and using that information how can these intermediaries improve these services and service processes?’*

Previous literature gives guidance about how the intermediary can provide good quality services. The studies show that financial advice itself can increase decision accuracy of the consumer and can also improve his or her financial situation; given that the advice is indeed actually used. The intermediary can advance the advice utilization by increasing its knowledge and expertise, by taking into account the opinion of the decision maker and by adapting their approach to the type of customer. Past literature also gives the broader roles that intermediaries ought to fulfill in the future. The insurance broker should focus more on providing professional consulting services, on support in the risk management process, on using their network and on being innovative. This graduation adds to this substance of literature by focusing directly on how a specific intermediary should improve its service according to their clientele. In this study an adapted SERVQUAL method is used to measure the service quality of the intermediary as perceived by their current customers. The model focuses on 23 distinct attributes of the service model whereby delivering quality services means the perception of the service aspect is fulfilling or even

exceeding the expectation of the customer. The sample in this study consists of the clients of seven intermediaries that participated in the 2013 Cedep master class as well as one voluntary participating intermediary. The SERVQUAL was conducted through an online questionnaire over the period January to February 2014. A personalized email invitation was sent to the clients of each participating intermediary and the data was evaluated and benchmarked against the whole group. Additional questions were asked to measure the need for other channels for information exchange and communication.

The results reveal that the SERVQUAL methodology is suitable for measuring both the service quality of the 2013 a.s.r. Cedep intermediaries as well as other intermediaries. The model has a high reliability and validity and is positively received by both the participating offices as well as their customers. It allows the insurance broker to monitor its service quality and evaluate introduced changes. The model gives the intermediary insight in what aspects of its service model is performing above and what aspects below expectations. The study also reveals that the intermediary has the right intentions as it comes to being a good service provider. Customers find them willing and able to help; they trust the intermediary and view them as friendly with a neat and professional appearance. There are however some aspects that are performing less than desired. The customers want their intermediary to be more proactive; to improve its up-to-date knowledge and keep them more informed about relevant news. The survey also fathomed the need for other types of service channels to enhance this interaction. The study shows the existing forms of communication such as email, telephone, newsletter and direct contact are still most favorable over newer forms such as Facebook, Twitter and Youtube. An important reason for this might be that the customer of the intermediary at this moment is commonly above the age of forty. Intermediaries should take into account that with the growing popularity of these newer forms of media especially among younger generations in the near future there might be more demand for communication and information exchange through these channels. The intermediary would do best monitor this demand and adapt to it early on.

## **PREFACE**

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This report is the result of a four month graduation period in which I fulfilled my master thesis for a.s.r. in Utrecht, the Netherlands. It is also the last requirement for the one year master program of Business Administration Financial Management at the University of Twente, Enschede. It thereby marks an end of an enriching and joyable period with many interesting classes, work groups and projects as well as a solid foundation for a career in Financial Management.

First of all I would like to thank my supervisor Henk Kroon whom without this graduation would not have been possible. Henk enabled me to come in contact with a.s.r. and continuously helped intensely in both the research itself as in the process of writing this graduation thesis. His critical view, insight and enthusiasm enabled me to successfully complete this report. I would also like to thank Peter Schuur for being the first supervisor and critically evaluating the report.

Next to this I would like to express my thanks to the a.s.r. colleagues at the intermediary distribution department and especially Rick Schouten and Peter Hendriks who have made this graduation possible and have taken the time to mentor and help me during my stay at a.s.r.. I would also express my gratitude to the group of account managers and intermediaries that were willing to invest time and effort into making this graduation research a success. Without their help and support it would not have been as successful as it has been.

I hope the reader will elicit value and pleasure from reading this report. Comments and remarks are always welcome.

Utrecht, May 2015

Quirijn van Hengstum

**TABLE OF CONTENTS**

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ABSTRACT ..... 1

PREFACE ..... 4

TABLE OF CONTENTS ..... 5

LIST OF FIGURES AND TABLES ..... 6

1. Introduction ..... 7

1.1 Regulatory changes in the insurance market.....7

1.2 Intermediaries need for a new service model .....8

1.3 The need for a graduation project .....10

1.3 Research questions and objective .....13

2. LITERATURE REVIEW ..... 15

2.1 The value of financial advice.....15

2.2 The effect of commissions on advice.....18

2.3 The role of the intermediary .....20

2.4 Service quality .....22

3. RESEARCH METHODOLOGY AND SAMPLE DATA..... 29

3.1 Methodology .....29

3.2 Measuring reliability .....33

3.3 Measuring validity .....34

3.4 Sample definition and data collection.....34

4. DATA ANALYSIS ..... 35

5. CONCLUSION AND DISCUSSION ..... 36

REFERENCES ..... 40

APPENDIX A LIST OF QUESTIONS SERVQUAL SURVEY .....44

**LIST OF FIGURES AND TABLES**

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**Figures**

Figure 1: The dimensions of the SERVQUAL scale (Parasuraman, Zeithaml, & Berry (1985)) ..... 24  
Figure 2: The SERVQUAL Gap model (Parasuraman, Zeithaml, & Berry (1985)) ..... 25

**Tables**

Table 1: List of SERVQUAL attributes ..... 31

# 1. Introduction

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## 1.1 Regulatory changes in the insurance market

The Dutch insurance market has recently been tormented by a number of financial affairs. Years of deregulation and liberalization of this market resulted in the existence of a number of ‘questionable’ products. Share leasing and other complex investment constructions pushed a significant amount of households in severe financial distress. The costs and risks of some of these products were intransparent and the information given by a small number of the insurance companies and intermediaries to the often financial incapacitated consumers was too limited and in a few cases even incorrect (Dutch Authority of Financial Markets, 2006). An explosion of both offline and online media targeting these problems rapidly increased the awareness for the risks associated with such complex financial products. In combination with the already enormous focus on the problems with the financial markets and institutions since the global financial crisis confidence and trust in the insurance companies and intermediaries was at an all time low. The Dutch Ministry of Finance decided in 2009 that it was time for an important change-over.

The Ministry of Finance argued that the sales driven insurance market needed to undergo a transition towards being more customer orientated; putting the interests and needs of the consumer upfront. They created numerous legislation for forcing this transformation. The most recent and rather significant addition to this aggregate of legislation is the on the 1<sup>st</sup> of January 2013 enforced Financial Markets Amendment Decree which addresses four important areas (Bill: Wijzigingsbesluit financiële markten, 2013):

- There should be adequate procedures for the formation of new (complex) financial products with a balanced focus on the interests of the seller and the buyer of these products.
- The knowledge and risk management experience of the potential client should be tested in advance by the insurer or intermediary when dealing with execution only products. If one of those is insufficient for that particular product the customer should be endorsed to take additional advice.
- Financial service providers should be transparent towards their clients about the product, price, quality and associated risks. A service provision document should be handed out to each potential client which shows the business activities of the advisor and the cost for each task.
- An advisor or intermediary is prohibited to receive any form of commission for selling a payment protection insurance, life or funeral insurance, individual incapacity for work insurance or complex products both directly or indirectly by the insurance company or provider of the financial products.

In addition to these four aspects senior management and policymakers of financial firms are obliged to take an oath in which they promise to put the needs of the customer upfront, that they would not embezzle their knowledge and that they would weight the financial concerns of all the parties involved. The objective of this Amendment Decree was to increase the quality of financial products, the quality

of the given advice, to create better informed consumers and to put the financial advisors in the corner of the client instead of the insurer. According to the Authority of Financial Markets or AFM in charge of reinforcing this regulation was it necessary to change the financial culture in order to restore confidence in the insurance industry. The four areas will have considerable impact on all the players in the insurance branche and make it necessary for these organizations to reconsider their current business operations in order to deal with these changes.

## **1.2 Intermediaries need for a new service model**

One financial institution that is certainly noticing these changes is the Dutch insurance group a.s.r.. This insurance group with the insurance brands a.s.r., Ardanta, Europeesche Verzekeringen, Ditzo and De Amersfoortse provides a wide range of financial products such as life, health, indemnity, income and funeral insurance policies, individual and collective pensions, mortgages, savings and investment products and banksaving constructs. With a turnover of almost € 3.9 billion last year (2013) a.s.r. is the seventh largest insurance group in the Netherlands and therefore an important player in the Dutch insurance market (Verbond van Verzekeraars, 2013). A large percentage of a.s.r. its business is conducted through independent intermediaries. These intermediaries fulfill an important role as the bridge between insurance policy asking consumers and a.s.r. as the insurance policy provider. By matching the insurance needs, financial situation and risk profile of potential customers with the financial products provided by a.s.r. and other insurers they bring both parties closer together. Insurance intermediaries bring added value to the insurance chain by reducing the transaction costs and information asymmetry.

The aforementioned regulatory changes however have a significant impact on the business operations currently executed by these intermediaries and as a result on a.s.r. as well. The fourth topic of the Amendment Decree concerning the restriction on direct commissions is herefore most important as it will inevitably lead to a considerable change in the service model used by most intermediaries. In the past the remuneration for the intermediary was part of the premium paid by the policy holder to the insurer. These type of commissions were considered to be an opportunity for insurance companies to steer the intermediary towards advising those products that would give the most profit to the insurer. Insurance products with a high profit margin would be translated into products with high intermediary commissions. With varying commissions between financial products and insurers the intermediary was incentivized to recommend consumers products based on those with the highest commissions instead of those that were most suitable for their clients. The differences in these commissions were not always clearly visible for consumers making it difficult for them to assess whether an intermediary was honest in its advice or not. According to the Dutch Ministry of Finance removing this steering potential through commissions should place the intermediary nearer to the consumer (Dijsselbloem, 2013). The intermediary can no longer be incentivized by the insurer to sell particular products and will have to put



its focus on the needs and wishes of the consumer. This should eventually lead to a more open and transparent insurance market.

The separation between the financial product and advice will require a significant turn around in the current service model of the intermediary. For the vast majority of consumers it was not explicit that a part of their premium paid to the insurer was in fact a payment for the advice given by the intermediary. They often considered the advice to be 'free of charge' or 'part of the package'. Since January of 2013 this unclarity became absent as customers now receive two separate bills: one for the financial product and one for the advice given by the intermediary. This results in customers which are more aware of the price they need to pay for advice. Not only will this lead to resistance about paying for advice per se but consumers are only willing to do this if they have the perception that the advice has a great enough added value for them; as it has an advantage over using no advice or advice from other lower priced direct and indirect channels. The intermediary should reconsider altering its current service model in order to convince their current client base and future potential clients to use their services instead of other potential sources or no source at all.

The intermediary however is not only facing the need for a change in its service model due to the imposed regulations, it might also be facing the need for a change in how this service is delivered. Where nowadays the interaction and information exchange between intermediary and customer is predominantly in a direct face to face manner or otherwise through telephone or email the enormous growth in usage of newer forms of media channels such as Facebook, Twitter, LinkedIn and Youtube might also ask for a change in the service delivery process. Understanding the potential need for alternative communication channels is of vital importance for the future of the intermediary. These relatively inexpensive forms of communication could enable the intermediary to not only reduce their costs for customer contacts but also to reach a larger part of their customer base in an easier manner. The consumers however are not only using these channels and the internet as a whole for communication purposes but also for the search and closing process of various products and services such as those insurance products offered by the intermediary. As consumers and especially the younger generations are becoming increasingly accustomed to using the internet they are also more willing and capable to do part of the service of the intermediary themselves in order to reduce the costs as is shown in a large customer study (IG&H Consulting & Interim, 2013). With a wide range of direct writers and insurance comparison sites facilitating the search and closing process it is made increasingly easy in the last couple of years. If the intermediary is not taking into account these changes and will not change his current service model to deal with this transition he or she will face the threat of losing future customers to both online sources or to those competitors who will adapt.

Combining the recent trends of increased self service and online service usage with the changes in legislation and the highly saturated insurance market it becomes perspicuous that the intermediary is

facing a make or break period. The functions currently fulfilled by most intermediaries might not be fully compatible with the changes in market and regulations. Their service models originate from a time where the possibilities were abundant and their advice was paid indirectly through the insurance policy premiums. With the ban on direct commissions combined with a vast amount of alternative supply channels it is therefore upmost important for the intermediary to evaluate its current business operations. Their current service and pricing models should be improved or altered in order to increase the added value for their consumers. These alternative models should reflect the wishes and needs of present-day and potential future customers. The transition should bring customers back to choosing the intermediary for their advisory services. Although the need for this transformation is apparent for the majority of the intermediaries and although first steps are made there is a lot of room for improvement. A large number of insurance intermediaries is still doing business as usual with commissions changed into monthly contracts. But when the function of intermediary needs to change from sales based towards customer oriented this small change might not be sufficient. Current and future consumers want to see what service they would receive for their money and are not afraid to change their supply channel if they are not satisfied any longer.

### **1.3 The need for a graduation project**

A.s.r. herefore started a graduation project in order to acquire more information about how the intermediary can alter its business operations in order to effectively deal with these recent changes and how a.s.r. can support the intermediary in doing so. Understanding this will not only enable the intermediary to be more succesful in the future which will also positively affect a.s.r. but it will also enable a.s.r. to use this knowledge to strengthen its supporting role for the intermediary. Through discussions with a group of a.s.r. account managers it became clear that there was a big problem at this moment. For a large number of a.s.r. intermediaries it was unclear what the added value for their (potential) customers in the future could be and how they would be able to disclose this added value. During these discussions the idea was proposed that this graduation research could be a valuable addition to an already existing intermediary support class. The master class Cedep is an annual returning conference where a small number of intermediaries struggling with their business operations are assisted by a.s.r. in finding and implementing solutions for these problems. The 2013 masterclass consisted of eleven intermediaries. Each of these intermediaries although very different in size, location and target market recognized the need for a change in their current business operations and was dedicated to further this transformation process. Therefore, for this thesis a model will be constructed that would and should be applicable for all different kind of intermediaries and can be an addition to the master class. Open for suggestions and assistance this Cedep group would be very suitable as the first group to test and evaluate that model.

In order to come up with a specific research objective it is first necessary to take a closer look on the service provided by the intermediary. The intermediary service process can be viewed as a two-step process. In the first step the potential client reaches out to the intermediary for assistance in the purchasing of a financial product. The intermediary evaluates the financial position and insurance needs and wishes of the potential client and compares these with the available products from the different insurance companies. When the best suitable match between product and client is found the intermediary will close on the financial product. This can either be done directly by the intermediary itself if he has a full mandate or he will lodge for a product application to the insurance company. This first step can be seen as the initial advisory step. The intermediary has to bill this advice directly but has the option to spread the payment over a maximum of 24 months. After this step the client has purchased the financial product. This is however not the end of the client-advisor relationship. After the purchasing there can be a number of possibilities in which the client still needs additional advice. This can be in the case of changes in legislation or financial position of a client but also for example when a claim needs to be filed for a damage insurance policy. The intermediary has two options for billing this advice: either by sending out a bill each time the client uses advice or by spreading these costs in the form of a monthly contract. As advice can be rather costly to pay all at once most of the intermediaries favor a small range of monthly contracts varying in the amount of service given at corresponding prices. This step will be called the aftercare step in the following of this report.

Of these two steps the initial advisory step is the stage that is most researched and discussed in the past. Combined with years and years of experience most intermediaries are very capable of evaluating how this initial advice should be given and are able to give an accurate estimation about what amount of hours are needed for the advice of each of the financial products available. The amount of hours multiplied by an hourly rate makes it also relatively easy to assess a price for this step. The aftercare step however is a bit more complex because it is rather difficult to predict how much service each individual client would need in the future. Where in the past the total amount of commissions required to exceed the total amount of costs and a certain profit margin, the intermediary now has to look much more to each individual client. Would the monthly contract for a specific client exceed the costs for that client while still sufficiently meeting their needs? At the start of the graduation thesis most intermediaries were already offering a limited number of monthly contracts to their customers (often varying between one and five). Evaluating these contracts it became evident that they were commonly based on the old way of thinking in that insuring is according to the law of large numbers. This means that these contracts would be economically viable in the case that only a limited amount of customers would actually use all the services promised in the contract and most would just use a very limited amount or none at all. This way of thinking was rather profitable when the advice was still paid indirectly through commissions and people were largely unaware of the price of advice. But when the advice is paid directly customers will only want to pay for what they are planning to use. This will lead to a

situation that most clients will choose a contract in which they are going to use almost if not all the offered services. Most of the current contracts might than not be economically viable any longer. This problem leads to a rather interesting question. Would it be possible to create contracts that are both economically viable as well as meet the needs of the customers?

The idea came to use a hybrid conjoint analysis to construct a group of “ideal” contracts for each intermediary: contracts that were most favorable by and suitable for the customers but at the same time would be profitable enough. The hybrid conjoint analysis is a survey based research methodology used to position a product or service in the market (Green & Wind, 1975) (Green & Srinivasan, 1978) (Goldberg, E., & Wind, 1984). In this methodology a particular service or product is split up into all the aspects that together form that service or product, such as price or color. Each of these aspects can vary with a limited amount of values. An extensive customer survey would be used with a variety of questions to find what level of each attribute is ideal and how sensitive a certain variable is to changes in its level. The model also shows how important each aspect is in the total product or service and takes into account the changes in price of product or service when variables change. The result of a hybrid conjoint analysis is a single or small group of ideal product(s) or service(s) that is/are most suitable to the wishes of the customer and at the same time are profitable for the service or product provider. As a hybrid conjoint analysis was proven in the past to be very succesful in positioning services and products in the market (see f.i. (Green, Krieger, & Wind, 2001), (Wittink & Philippe, 1989) or (Wittink, Vriens, & Burhenne, 1994)) it could also be an ideal methodology for this graduation research.

The hybrid conjoint analysis was discussed with a number of account managers and intermediaries. The result from these discussions however was that although the methodology was very appealing and could bring some interesting and useable results it would have two significant impediments. The first problem would be that proposing certain “ideal” contracts could lead to criticism of the current customers about their existing contracts. If the proposed contracts would be more expensive the customer would not be satisfied with these contracts and if these would be less expensive they would not be satisfied with their current contract. In both cases it could lead to customers responding negatively to this research and the intermediary as well. Added to this is that most of the intermediaries still specialize their contracts for each situation. A client with a pension would receive a different contract than a client with both a damage insurance and a mortgage. There are so many combinations that it would be too much work for each intermediary to come up with prices for each module and each variation. Something which the intermediary just do not have the time for at this moment. This already became evident when the intermediary was asked to describe its current business model and all the aspects that could vary in that service model. Only five of the eleven intermediaries returned the initial survey and most responded that the amount of time required for that methodology was just too high and that the methodology would be too invasive for their current business operations.

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Although the methodology could give a great amount of information to the intermediary and could lead to concrete solutions for their problems it was clear this research would ask for somewhat of another direction. A research method that was not invasive for the customers of the intermediary, would hardly be any work for the intermediary themselves and would give a good amount of information about how the intermediary could improve its business operations. During a second discussion with an a.s.r. account manager and an intermediary it was mentioned that the most important objective of the intermediary should be to match and if possible even exceed the expectations of its customers. In that way customers would perceive the service to be of high quality and would continue to use it in the future. Going further on that principle it could give the intermediary a lot of information if would be able to understand how their current customers would actually value their received services and what their needs are for how this service should be delivered to them. Asking customers about how they perceive the service of their intermediary would neither be invasive for them neither for the intermediary; it would not be too time consuming for both parties and it would still give a lot of information about where and how to improve the service and service delivery process. This direction for the graduation research would be most valuable for the intermediary at this moment and give the best results at the end of the study.

### **1.3 Research questions and objective**

As the aforementioned paragraphs show there is a large uncertainty about the added value of the intermediary for its customers. The introduction also reveals that the first step to help these intermediaries is to show how their current customers perceive their received service. The objective of this research is therefore to inventorize the quality of the a.s.r. 2013 Cedep intermediaries their service and service processes and to propose guidelines for improving this service and service processes. Based on this the following research questions are posed:

- *How can the quality of the services and service processes of the 2013 a.s.r. Cedep intermediaries be inventorised and using that information how can these intermediaries improve these services and service processes?*

These research questions are divided into the following sub-questions:

- *What model should be used to measure and evaluate the quality of the services and services processes of the 2013 a.s.r. Cedep intermediaries?*
- *How can this model be constructed so that it can be used for other intermediaries as well?*

- *Through what communication channels would the customer of the 2013 a.s.r. Cedep intermediaries prefer their services?*

This research will enrich the existing studies as it will bring about a model to measure the service quality of the intermediary based on scientific literature. This model will initially be tested and evaluated on the 2013 Cedep intermediaries but will be constructed as that it is usable for all other intermediaries as well. The model should also be useable across time which enables the intermediary to see whether or not the improvements made to their service model have any effect. The research will give practical guidelines for the service and price models currently used. Both information from the consumer survey as interviews with intermediaries that have successfully made the transition will be used in this report. This will give a complete initial “toolset” for intermediaries in the Netherlands struggling with making the transition.

The remainder of this paper is structured as follows. In the following section a review of the relevant academic literature is given on the value of advice, the origin of the intermediary and its potential future roles and the available methodologies to measure the quality of services and service processes. The literature is discussed, evaluated and critically addressed. Chapter three discusses the research methodology used in order to find answers to the aforementioned research and sub-questions. The intermediaries sample participating in this research is discussed in this chapter as well. In chapter four the results of this qualitative study is evaluated and discussed. Chapter five consists of the conclusion and shows the answers to the research questions. This last chapter discusses these results as well as implications for existing theory, the participating parties and the insurance market as a whole. The limitations of this study and suggestions for future research are provided.

## **2. LITERATURE REVIEW**

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In this chapter relevant literature is critically reviewed in order to put this research into a contextual framework and to support the answering of the research question and sub questions. The review starts with a paragraph about the value of financial advice. It reveals existing empirical evidence concerning the effects of advice on the decision making process. The paragraph also reflects on problems that limit the advice acceptance and provides possible solutions for these problems. The second paragraph discusses the origination of the function of the intermediary as a bridge between the insurance companies and the consumer. Components of this function are not sustainable any more due to the recent changes in legislation and the technological developments. New functions should be fulfilled by the intermediary in the future in order to cope with these changes. These broader functions give guidance to the intermediary about appropriate future business models. However, concrete changes in the near future are needed as well. The first step in understanding what is going right and what is going wrong is to measure the service quality of the intermediary as perceived by its customers. Therefore, in the last paragraph common used methods for measuring service quality are described and evaluated. Information about what specific aspects need improvement together with the roles that the intermediary should fulfill in the future will give a more complete picture of the suggested future business model.

### **2.1 The value of financial advice**

A great amount of research has been conducted on the value of advice both in general situations as in the case of financial advice. The reason for this is that individuals regularly seek advice before making a decision, especially if that decision is complex or important. Examples include a study advisor which is solicited by a high school student in order to make the right choice for a subsequent study; an investment company or bank which is asked for help by an investor in making the right investment decision and a real estate broker which is contacted in order to give advice about the appropriate rental property. Individuals search for advice in order to maximize their decision accuracy thereby reducing the chance of making the wrong judgment. Using advice can provide the decision maker with new information and alternatives that were first not considered. Increasing decision accuracy by using multiple sources of information can be theoretically explained using statistics (Yaniv, 2004 (I)) (Yaniv, 2004 (II)). A subjective judgment of an objective event is the combination of three aspects: the ‘right’ judgment, a constant bias and a random error. By averaging multiple estimates the resulting judgment has a lower random error. With limited bias increasing the number of estimates converges the final decision towards the ‘right’ decision. This implies that theoretically the usage of advice increases the judgment accuracy of the decision maker.

A wide variety of studies use a Judge-Advisor System or JAS in order to also find empirical evidence for this relationship as well as other effects of advice. In a Judge-Advisor System a group of participants

enter a research project. They are randomly divided into either the group of advice-givers or advice-takers. The decision maker or judge then receives advice from the advisor about a particular decision he needs to make. His final decision is compared with either his pre-advised decision or with the decision of non-advised judges. Variables of the advice-giving and the advice-taking process are then altered to study for different situations. Using this method large amount of empirical evidence is found that the usage of advice increases decision accuracy of the judge (f.i. see (Dalal & Bonaccio, 2010); (Yaniv, 2004 (I)); (Yaniv, 2004 (II)); (Harvey & Fischer, 1997)). The article by Montmarquette & Viennot-Briot (2012) reports that using advice can also increase the financial assets of individuals. They use a survey from a large number of working-age Canadian households to measure both the reasons why individuals have financial advice as the value of this advice. Their study shows that the most important determinants of the usage of financial advice are income, age and the ability to save money. They also show that households with a financial advisor have 2.73 more financial assets than non-advised households. They add to this result that the advised individuals have more confidence in a financial secure future and have more trust, satisfaction and confidence in financial advisors than their non-advised counterparts. The article by Marshden & Zick (2011) adds to this that an advisor gives individuals more confidence in their financial future.

Although these studies support that advice is valuable and the usage increases decision accuracy an important problem is that individuals tend to discount the advice given by an advisor and heavily rely on their own opinion (Yaniv, 2004 (I)) (Bonaccio & Dalal, 2006) (Yaniv & Kleinberger, 2000). There are three main reasons for this problem. The first lies in the difference between admission to the underlying justifications of the decision-maker and those of the advisor. The external decision of both parties is a result of the internal knowledge base and reasoning process. The decision-maker can justify its own reasoning for arriving at a particular choice but can only to a limited extent grasp that of the advisor. The rationale and intentions of the advisor are just limited visible and the decision-maker is only partly able to assess the degree of bias of the advisor. The result is that the decision-maker values their opinion more heavily and discounts that of the advisor. The advice discounting can also happen because of a process called anchoring. The cluster of a past decision of an individual creates a certain route in the brain. These choices are acting as an anchor for new situations. Individuals partially base future decisions on the past ones, making it difficult to accept options that are not in line with these anchored ones. The last main reason is egocentric bias. Individuals often believe their predictions and estimations to be superior to those of the advisor thereby discounting the advice given and holding on to their own beliefs. These three reasons could eventually lead to a problem as they limit advice utilization independent on the quality of advice.

A number of authors have focused their research on increasing advice utilization and have come up with several solutions. The article by Gino (2008) gives empirical evidence that discounting is reduced if the



decision-maker has paid for the advice. This result holds independent of the quality of the given advice. The rationality behind this can be found in the economics of the sunk cost fallacy (Thaler, 1980). If the decision-maker has paid for advice not using it would be a waste of money already invested. Thus paying for advice would stimulate individuals to also utilize it; more than free advice would. Discounting is also reduced when there is a larger difference in knowledge and expertise between the decision-maker and advisor (Jungermann & Fischer, 2005), (Birnbaum & Stegner, 1979) and (French & Raven, 1959). This can either be that the decision-maker has little knowledge or experience about the topic or the advisor is perceived to be an expert and the task is complex. In both cases the advice is perceived to be more valuable and the decision-maker is more incentivized to utilize the advice. These articles also show that advice from more confident advisors will be utilized more than advice given by less confident advisors. Yaniv (2004 (I)) adds to this that the distance between the initial opinion of the decision maker and the given advice is an important variable in the discounting process. When the advice is further away from their own opinion decision-makers would discount this more. This relation is strengthened when the knowledge of the decision-maker increases. With individuals with higher knowledge they explain the difference in given advice by the lack of knowledge of the advisor and not themselves. This would result in more advice discounting. The article by Hung & Yoong (2010) gives evidence using data from the RAND American Life Panel (a probability sample of all US households), that individuals which actively ask for advice utilizes this advice more than individuals that are simply given advice. In their report unsolicited advice is almost completely rejected by decision-makers. The authors mention that the focus should be on the importance and benefits in order to attract decision-makers. Advice should not be made obligatory as this advice would not be utilized. The report also shows that the decision-makers that actively ask for advice have higher financial performance in the long run than those that do not use advice.

The article by Dalal & Bonaccio (2010) gives evidence for improving the advice acceptance from a different view point with a focus on the type of advice given. The authors acknowledge four classes of advice: the recommendation for a particular action, the recommendation against a certain action, the provision of information about feasible alternatives and the assistance given in the decision making process. Of these four categories the “recommendation for” is most commonly used by advisors and typically studied in past research. In this report the authors however evaluate if in some situations the other types of advice could be more suitable. They give evidence that when the advisor is an expert and the difference in knowledge between advisor and decision-maker is the largest the recommendation for method is still viewed as most positive. In this situation decision autonomy is relatively unimportant. The article however also gives evidence that when the differences in level of knowledge becomes smaller and individuals attach more value on decision autonomy the provision of information about alternatives becomes most preferable over other types of advice. This result stresses an important change as due to technological developments and increased knowledge of decision-makers the differences in

expertise becomes smaller and individuals increasingly want to take control over their financial situation. The provision of information about alternatives should therefore have a bigger role in the advice-giving process.

The above mentioned articles give some guidance about how the intermediary should give its financial advice. The articles acknowledge that financial advice can increase decision accuracy of the customers and can also improve the financial situation but only when this advice is given correctly and utilized by the decision maker. The intermediary can increase the advice utilization by increasing its knowledge about the insurance products and markets. He thereby will be perceived to be an expert by potential customers. The intermediary should also take into account the opinion of the decision-maker and try to start with advice nearer to this opinion. Last the intermediary should consider not only promoting one option but giving multiple options in the case the decision-maker is already rather knowledgeable about the different products.

## **2.2 The effect of commissions on advice**

The previous section clearly shows the positive effects that advice can have on the decision making process. It also reports the problem of advice discounting and proposes possible solutions useable for the intermediary to increase advice utilization. Advice however can only lead to the right decision if the advisor itself is unbiased in his judgments. This can become questionable if the advisor is paid through commissions by the insurance companies. The Authority for the Financial Market in the Netherlands stated that using a remuneration system based on commissions could enable insurance companies to steer the advice of the intermediary towards particular products. Insurance companies could give higher commissions to the intermediary when they advice products that are more profitable for the insurance companies. This could incentivize the intermediary to give biased advice. Past literature is somewhat divided about this problem and therefore on the usefulness of the ban on commissions.

The article by Beyer, Meza & Reyniers (2013) reports empirical evidence that insurance purchasing is indeed heavily affected by the commissions given to the financial advisor. Although there results are done in a laboratory setting the authors strongly believe that the effect of commissions on the purchasing behavior are largely underestimated. By affecting the behavior of the advisor commissions will also affect the purchasing behavior of the consumer. This enables the insurance companies to transfer their desired product purchasing through these commissions. It will eventually lead to an inefficient allocation of the available resources (Angelova & Regner, 2013). Hofmann & Nell (2008) researches two remuneration systems in their study: a system based on commissions and one based on fees. They find that in a commission based system more customers are informed or advised than is necessary. All uninformed consumers can ask for information, even if the costs of information giving exceeds the benefits. In a fee based system, where only consumers are billed for the advice used, the social welfare

is therefore much higher as only consumers that are actively searching for advice are advised and receive the cost of this advice. The article by Anagol, Cole & Sarkar (2013) gives empirical evidence on the quality of advice in the Indian life insurance industry. The article considers the effect of commissions on the advice-giving process. The report show evidence that the intermediary agents are not incentivized to advice the consumers the most suitable products when commissions are used. Insurance agents are inclined to search for the highest revenues. They will do this by either choosing products with the highest commissions or products which are sold the fastest and easiest.

The above mentioned articles all give evidence that the commission system can be used by insurance companies to steer the intermediary into selling products that are most profitable for the insurance company. The article by Inderst & Ottaviani (2012) acknowledges this problem but has some comments on it. They find evidence that consumers can be misled by a biased advisor but only when they are naïve. Anagol, Cole & Sarkar (2013) also shows that less sophisticated consumers are more likely to receive biased information. Naïve customers are those that are per definition unaware of the fact that advisors were paid indirectly by insurance companies through commissions. They will irrationally trust the advice and follow the advisor. Eventually these customers will pay higher premiums because insurance companies will give higher commissions to attract the intermediary. The article however states that when decision-makers are aware of the commission system these commissions can not be used any longer to mislead the customer. The commissions would than be rather effective in stimulating the advisor to understand which products are most suitable for the wishes of the customer. Dampening the use of commissions may have negative implications as, for instance, new products are rolled out more slowly or certain segments of the market that would require more effort to reach are not covered at all. Intermediaries are also not incentivized to advice about time consuming products in the case commissions are banned and will focus on easy sales. In the case of wary customers product prices will be sufficiently low that it is impossible to have large differences in commissions reducing the effect of these commissions.

The article by Focht, Richter & Schiller (2013) adds to this that the usage of commissions can also work in favor of the intermediary. The article states that commissions create an important bargaining position for the intermediary. The intermediary has a severe amount of critical information about the market and its customers that the insurance companies do not have and has the ability to match and mismatch customers and insurance companies. In a fee based system the intermediary is unable to use this bargaining power as he is now only paid by the customer, but in the commission system the intermediary can force the insurance company to create the right products and appropriate commissions. As income generation of the intermediary is now alligned with the insurance company it is an incentive for insurance companies to learn more what financial products are best suitable for the needs of their potential clients. Another important problem is that in the case of the commission system the advice

itself is free, which enables more consumers to receive advice and also possible from multiple sources. In the commission system almost all uninformed consumers are able and willing to become informed. Now the advice is paid for this will be reduced, decreasing the general knowledge of the consumer. Too few potential consumers will become informed without the commission system as they have to pay for advice, whether they use it or not (Gravelle, 1994). The social welfare thus might be lower in the commission based system but general knowledge about the products increases.

The above mentioned literature shows that there are two sides to this story. There are a number of authors in favor of the ban and a number against. This report however is not intended to question the consequences of the changes implemented by the Authority of the Financial Market; it is to help the intermediaries cope with those changes in market and legislation. With this new legislation the insurance broker should bill their customers directly. Where before the intermediary service was part of the “full insurance package” and customers were often not aware of these costs, it is now completely separated. The customers are starting to question the added value of the service provided by the intermediary. It becomes important for the intermediary to redefine their position in the market and to have a closer look at their service and pricing model.

### **2.3 The role of the intermediary**

In order to cope with the recent changes in legislation and in the market the intermediary should have a closer look at what function or functions he or she wants to fulfill in the future in order to bring added value to the total insurance purchasing chain. In this paragraph the origin of the intermediary is briefly addressed and potential roles which the intermediary can fulfill in the future. The intermediary originates from the function as a market maker between the buyers and sellers of insurances (Cummins & Doherty, 2006). In this function as market maker the intermediary had two important tasks: to reduce the information asymmetry and the transaction costs between insurance companies and policy holders (Leland & Pyle, 1977). The insurance companies that sell the insurance policies need information about the financial situation, risk profile and insurance needs of potential clients. On the other hand these companies fully understand the quality and properties of the financial products they are offering. This information however is largely private and will only be exposed to potential customers if it benefits the insurance company. The potential policy holders are very familiar with their own financial situation and preferences but will also only expose this if it has any benefits for them. Opposite these policy holders are largely uninformed about whether there is a good match with the offered products and whether the insurance company has a good financial strength, sufficient capacity and capabilities and a good reputation on claim settlements. Both the insurance companies and potential policy holders have all the information about their own situation but can just to a limited extent obtain and also trust the information of the counterparty. This creates an information asymmetry and resulting chance of misinformed customers. The insurance intermediary as the middle man is there to acquire the needed information

about both parties in order to match the right insurance policy and policy holder, thereby reducing this asymmetry. Next to the reduction in the information costs the intermediary can also reduce the transaction costs. Due to the large growth and diversification in insurance companies and policy holders, for each potential client to search for the right insurance and insurance company and to execute the bargaining process with the insurance company, it would take an enormous amount of time. The other way around for the insurance company to create a risk profile about each potential client would also take a lot of time and would be very costly. The search process can be done much more efficient by the specialized intermediary than by the insurance companies and customers themselves. The intermediary knows the risk of their customers and they know which insurer is willing to cover what part of that risk. Indeed, using advisors allows households to benefit from economies of scale in portfolio management and information acquisition, because advisors can spread the costs among their clients (Hung & Yoong, 2010). This reduces the transaction costs of the insurance buying process.

But were information asymmetry and transaction costs were the important drivers for the need for intermediaries in the past, changes in the environment, such as the technological revolution, has made other aspects more important (Allen & Santomero, 1998). The deregulation and liberalization of the insurance market the last couple of decades has led to increasingly complex and diverse financial products which increased the need for sound financial advice. But on the other hand the increased recent legislation and the emerging of new information and communication technologies made information much more available and accessible and reduced the information asymmetry and transaction costs creating a more level playing field. It is therefore important to understand what function or functions the intermediary should fulfill in the future for their customers. Is it still being a market maker or are other functions more important?

A number of reports focus on what the position and role of the intermediary should be in the future in order to coop with the changes in market and legislation. The report by Maas (2010) is one of those reports and examines how insurance intermediaries can keep adding value to the consumer using a customer-value approach from a functional perspective. In this customer-value approach the focus is on measuring the value that consumers give to the function or functions fulfilled by a certain profession, which in this case is the intermediary. The author used a survey method to interview large globally operating industrial companies from a range of German speaking areas in Europe. The surveyed companies received questions about their needs and wishes considering the functions of a broker. Not only existing functions were proposed but also a range of new potential functions. The survey shows that customers want four main functions for their insurance brokers in the future. The first function is that the intermediary provides professional consulting services. As the complexity of the market increased in the last decades due to deregulation, liberalization, technological revolutions such as the internet and globalization the importance of good risk management also increased. Providing solid

consulting services to companies concerning their risk exposure is therefore considered to be the primary function for the intermediary in the future. This leads away from the past role of market maker which was more focused on the transaction services alone. As risk and risk management is always very personal orientated the intermediary should therefore put its focus on the personal aspect; building personal relationships, trust and showing empathy and continuity with their clients. The second function for the intermediary is to give support in the risk management process. This can be either to relieve the customer from a part of its risk management or to be a source for second opinion. Because the intermediary is independent of any insurance company he can also give independent advice on how to deal with the risk management. The third function for the insurance broker is that he should be innovative and proactive. The intermediary should think ahead and come up with innovative solutions in its service that would relieve and help their customers. The intermediary should become more of a business partner than a sales person and think together with its clients. The intermediary also has a lot of important information about its customers and could and should use this information to create better innovative products and services in cooperation with the insurance companies. The last function that the intermediary should fulfill is that they should contribute with their (international) relationship network. The intermediary often has a wide variety of customers from different backgrounds and businesses. Networking nowadays is of vital importance for the viability and success of each business. The intermediary should evaluate possibilities for him to use the value of his network in his advantage. Dependent on his clients and his motives for the network this can vary from for example facilitating regular meetings open for all customers to listen to new changes in legislation and insurances and contact with each other up to facilitating a platform that will bring these customers directly together. According to the article by Maas it can add enormous value to the offering of an intermediary or insurer such as a.s.r..

With the above mentioned changes in functions and roles also come changes in the required skills and competences of the future intermediary. The study by Maas (2010) asked the surveyed companies to argue which competences and skills are most important for the future of the intermediary. The companies valued industry and customer specific knowledge, competence in risk management, personal relationships and problems solving abilities as of very high importance. The surveyed companies also argued that these skills are mostly underperforming at this moment. The brokers are too much sales driven and not solution driven. If the insurance brokers focus more on the solution and give high quality services, their customers would be more satisfied and even willing to a higher price their received services.

## **2.4 Service quality**

In this thesis the objective is to inventories the quality of the 2013 a.s.r. Cedep intermediaries their service and service processes and to propose guidelines for improving this service and service processes.

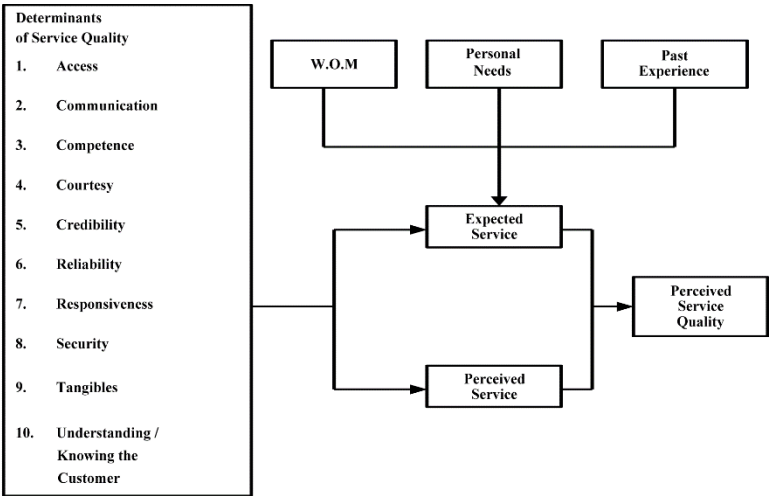
The previous paragraph revealed which broader functions the intermediary should have in the future and what skills and competences are needed for those functions. In order to give the intermediaries some practical guidelines on which aspect of its service need improvement it is important to construct a model which measures the quality of the total service package. This package consists not only of the agreements made between the policy holder and intermediary and enclosed in the contract but also the more implicit aspects of advice that play an important role in the whole advice “feeling”. Aspects such as the willingness to help, the trust in the intermediary and the responsiveness to problems are just as important for the total service experience as only those aspects in the contract. For service companies to maintain or even increase their consumer base they have to find ways to outperform their competitors and outperform the expectations of their clients. One important aspect is therefore to give high quality services. Being able to measure and evaluate the quality of the offered services can help the intermediaries in improving its business operations (Asubonteng, McCleary, & Swan, 1996).

There are a number of methodologies that are used in theory and practice to measure and evaluate service quality with some more and others less appropriate for this study. An example is the critical incident technique (Flanagan, 1954) that measures the (unusual) positive or negative incidents with customers. In most cases a customer survey is used to ask consumers to tell about a positive or negative experience that they had with the service company. These stories are then collected, verified and evaluated in order to give the organization a verdict about their service quality. Another example is to keep track of the amount of complaints in the complaint analysis technique and see the increase or decrease over time to evaluate the service quality. These two methodologies are examples that only focus on the good and bad experiences and situations that clients could have. There are however also methodologies that try to look at the whole of the service experience given by the service companies to their customers.

The most prevalent used research method to measure service quality is called SERVQUAL (see f.i. (Ahmad & Sungip, 2008), (Shekarchizadeh, Rasli, & Hon-Tat, 2011), (Sharma & Bansal, 2011), (Bala, Sadnhu, & Nagpal, 2011), (Parshaie, Fatemi, & Ahmadi, 2013) and (Naik, Gantasala, & Prabhakar, 2010). This method was proposed by Parasuraman, Zeithaml & Berry in 1985 when they recognized that although methods to measure the quality of goods were largely available the quality of services was still unspecified and under researched. Other researchers were hesitant to construct a model because of the ambiguous and intangible nature of service quality. There are three types of properties for goods and services: the search properties contain all the aspects that a consumer can determine before buying the product or service; the experience properties contain all the aspects that a consumer can only determine after buying or during consumption; and the credence properties that contain all the aspects that consumers find difficult or even impossible to evaluate after buying or consumption. While goods largely have the first two categories, services largely contain experience and credence properties making their quality much more difficult to evaluate. This also inhibited the use of quality models for goods as a measure for the quality of services. But with an increase in the importance of excellent quality services

since the 1980s the importance of a solid framework to measure service quality also increased. Being able to know how a customer valued a particular service would enable the company to supply the consumer with better service and improve its own efficiency. For management knowing what attributes determine customer perceived service quality enables them to direct their strategy towards improving those attributes that are valued as insufficient by its customers. Service quality has also been shown to be an important determinant for market share, return on investment and cost reduction (see f.i. (Anderson, Fornell, & Lehmann, 1994) and (Zeithaml, 2000)).

Parasuraman started their framework with defining service quality as “a global judgment, or attitude, relating to the superiority of service”. This judgment was based on both the outcome of the service as well as the process of service delivery. Parasuraman constructed the SERVQUAL methodology where service quality is measured as the gap between the expectation and the performance perception of the customer. Delivering quality services means to fulfill or even exceed customer expectations. The customer satisfaction is related to the direction and size of the disconfirmation between expectations and perceptions. Where a negative gap resulted in discontentment, a positive gap resulted in satisfaction. The authors find in their study that, regardless of the field of service, consumers use relatively similar determinants for the quality of service. In their 1985 study Parasuraman used in-depth interviews with executives as well as 12 focus group interviews to find out what the determinants for service quality are. They condensed an initial group of 97 items into 22 determinants that together give a sound picture of the service quality of a certain organization. They found that for different industries these attributes remained the same (Parasuraman, Zeithaml, & Berry, 1988). In their report they found that these 22 determinants would fall into 10 dimensions of service quality as is depicted in figure 2 below. The figure also shows the relation of this attributes to the expected and perceived service and service quality.



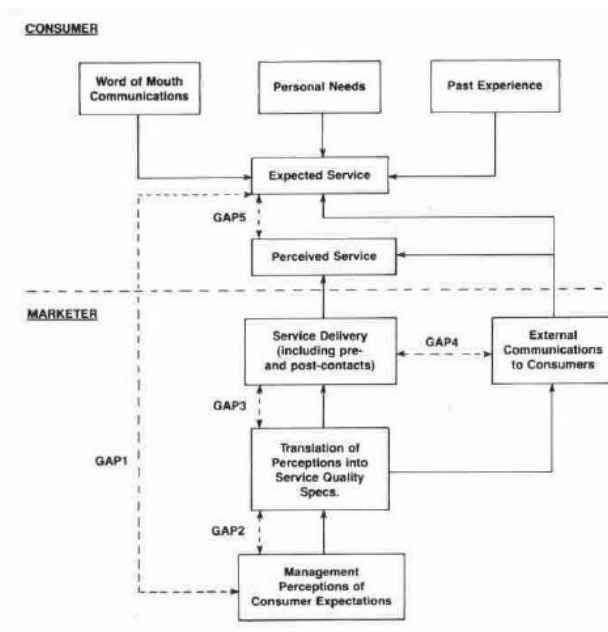
**Figure 1:** The dimensions of the SERVQUAL scale (Parasuraman, Zeithaml, & Berry (1985))



In a later study these ten dimensions were condensed in the following five RATER dimensions (Parasuraman, Zeithaml, & Berry, 1988):

- Reliability measures if an organization is dependable and performs the tasks at the agreed moment.
- Assurance measures the amount of knowledge the employees have and if they are able to transfer trust.
- Tangible measures how much the appearance of both the employees and the facilities are visually appealing.
- Responsiveness shows how much the organization is willing and able to help in time.
- Empathy shows how much the organization cares for its customers and gives personal attention.

As the SERVQUAL methodology combines the perceived quality with the expected quality of services this model gives more depth than a regular customer satisfaction study. The main key of this model is that the quality is not measured by objective observations, but by the perceptions of those variables made by the customers; it measures the perceived quality. By measuring the magnitude and directions of the disparity between the expectations and perceptions of the service quality parameters the service organization understands what aspects of its service are over- and what aspects are underperforming. These disparities between expectation and perception originate from a number of gaps between the perception of service quality and the work related to service delivery. The service quality model from Parasuraman with these gaps is shown below in figure 2.



**Figure 2:** The SERVQUAL Gap model (Parasuraman, Zeithaml, & Berry (1985))

There are five gaps in the SERVQUAL model that explain the difference between the expected service of the consumer and the perceptions from management about this expected service. These five gaps are explained below:

- Gap 1: The gap between consumer expectations and management perceptions. Parasuraman found in interviews with executives that although most of the time the perceptions of the management about service quality were in line with consumer expectations there were moments where management was unsure about what features of service were connected to high quality; what consumers actually expect from quality services.
- Gap 2: The gap between management perceptions and service quality specifications. Although a lot of managers knew what high service quality was, translating this into concrete specifications for service delivery was often difficult or there was insufficient management commitment towards reaching that service quality. The constraints that limit good service quality specifications could lie in the market, in the resources, and in the management skills and willingness.
- Gap 3: The gap between the service quality specifications and the actual service delivery. Even if the company has set up clear specifications or guidelines for their service delivery, there can be a discrepancy between that and the actual service given to the consumer. This is largely dependent on the employees in charge of service delivery.
- Gap 4: The gap between service delivery and external communications. Via a wide range of media such as newspapers or television the company can create certain expectations for its customers. If the company promises more than it actually delivers the service quality will be perceived to be of below standards. This will not only affects consumer expectations but also consumer perceptions of service quality.

The gap between the consumer expectations and consumer perceptions (or gap 5) is now dependent on the other four gaps; it is a function of gap 1, gap 2, gap 3 and gap 4. In order for a company to deliver exceptional service the gap between expectations and perceptions should be made as positive as possible, meaning performance exceeding expectations.

Since the introduction of the SERVQUAL model in 1985 it has been the most studied and applied methodology for measuring service quality. Regardless of the immense popularity of this methodology both in research as in the industry several researchers criticized the SERVQUAL scale. The largest discussion was focused on whether service should be measured by perceptions minus expectations or only by the expectations (Babakus & Boller, 1991). The two most prominent authors that attacked the disconfirmation methodology SERVQUAL is using were Cronin and Taylor. In their article (Cronin & Taylor, 1994) they construct as a reaction to the SERVQUAL scale a new scale that only focused on the perception scores. This SERVPERF methodology utilizes the same 22 questions as the SERVQUAL scale but eliminates the expectation questions. This reduces the amount of questions to half of the original scale making the methodology a lot more approachable when used. In their article they give

empirical evidence in four different industries (banks, pest control, fast food en cleaning) that measuring perception alone is superior to the disconfirmation methodology. They state that the SERVQUAL method was subjective, too complex and statistically not reliable. The method can only be used as a good tool for qualitative research. Cronin and Taylor argue in their article that the SERVPERF is an enhanced methodology of the SERVQUAL and should be preferred by researchers and in service companies.

This led to a division between authors supporting SERVQUAL and authors supporting SERVPERF. The article by Jain & Gupta (2004) compares both methodologies to find the strengths and weaknesses of each method in measuring service quality. The goal of their study was to find the better of the two methods in terms of validity, explanatory power of overall service quality, discriminatory power and diagnosing ability. The report has two important outcomes. The SERVPERF methodology has higher validity, reliability and methodological soundness, making it a better instrument for accessing overall service quality. A larger part of the variance in the overall service quality is explained by the SERPERF. The SERPERV methodology reduces the number of questions from 44 to just 22 reducing the chance of respondents dropping out. The report shows also evidence however in favor of the SERVQUAL methodology. The authors state that the SERVQUAL scale has a much higher diagnostic power than the SERVPERF meaning that it would be better at finding which attributes require managerial attention in order to improve service quality. The reason for this is a difference in reference point. The SERVPERF scale leads to scores from low performance up to high performance, but does not take into account whether these scores are already up to the expectations of the consumer. A variable that scores low on performance but that score is still higher than what consumers expected or desired should be of less importance to management than one that scores higher but is underperforming compared to the wishes of the client. Therefore the incorporation of the expectation score gives a higher diagnosing power and richer results. Jain & Gupta conclude in their report that the SERVPERF methodology is superior for evaluating overall service quality as it has the best psychometric properties and the SERVQUAL method is the best when management needs to find those areas that are underperforming and need attention as it has the highest diagnostic power.

The criticism on the SERVQUAL scale also stimulated a number of authors to come up with improvements to tackle the important flaws (Babakus & Boller (1991)). Brown, Churchill, & Peter (1993) tried to overcome some of the problems with the original SERVQUAL scale with conceptualizing the model slightly different. In his model the same 22 scale items are used as in the original SERVQUAL scale but instead of using computed disconfirmation he used measured disconfirmation. In the case of the original SERVQUAL scale both the expectations and perceptions are measured and afterwards subtracted to get the score for each attribute. This leads to 44 questions to be asked to the customer. Brown found in his study that asking to what extent the perceptions matched the

expectations of the customer at once would not only reduce the amount of questions by half but also increase the reliability of the model. The latter results from the fact that the reliability of a model is dependent on the reliability of each measure. In the computed disconfirmation this is dependent on both the reliability of the expectations as of the performance while in the measured disconfirmation this is only dependent on one measure. Another disadvantage of the original SERVQUAL scale that is now removed by using measured disconfirmation is the variance restriction. Because in almost all cases the expectations of a service are higher than the performance, when an intermediary scores a certain score on the performance scale, he limits his choices on the expectations scale as this should be higher than his performance rating. Other articles that try to improve the SERVQUAL scale are those by Kasper et al. (1999) and Parasuraman & Berry (1991). In their research they showed that changing all the original questions into positively formatted questions would give a better response in the SERVQUAL.

### **3. RESEARCH METHODOLOGY AND SAMPLE DATA**

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#### **3.1 Methodology**

The previous chapters have given us the framework for this graduation thesis by presenting an overview of the important literature on the utilization and causes of financial advice. These will also act as the foundation for the following of this graduation study. The current chapter will describe the methodology used for answering those questions proposed in the thesis. The study will be part of the existing Cedep master class organized by a.s.r. used to advice and support intermediaries with the problems that they are facing due to the changes in legislation and market. These intermediaries, although very different in their business operations and market, have common ground in that they are all willing to change and are open for help. Two aspects that makes them very suitable as the focus group for this graduation research.

The question raised at the beginning of this study was how to help these intermediaries create (more) value for their customers in the future and how they would be able to show this added value in a more visible fashion. The graduation research should be constructed so that it would give insight in how the intermediary could and should improve its current service and pricing model and the study ought to give practical answers to their difficulties. The model should also be applicable across all kind of intermediaries enabling a.s.r. to not only assist this specific group but eventually help other intermediaries. This enables a.s.r. to create an useful support tool as an insurance company. In the case that insurers cannot stimulate intermediaries financially to deliver good services these ways of non-financial help and encouragements are becoming increasingly important for the insurer-intermediary relation. As is mentioned in the introduction the initial proposed methodology of using a hybrid conjoint analysis would not be appropriate as it would have resulted in three important problems. The first is that almost half of the group of intermediaries was reluctant to put that much work in the graduation thesis as they already had bulging agendas. Second would this method most likely not have led to the desired results as there are so many differences in service models making it almost impossible to create a hybrid conjoint model that would be suitable along all the different intermediaries; and last even if this would be possible the method would ask customers to price their ideal service model or models which will lead to resistance as these prices would either be higher or lower than what they are paying right now.

A method is needed that would not give the intermediary too much work, would not be invasive for its current operations and could be used along different intermediaries. After some research it became evident that the initial research idea about the added value of the intermediary ought to be narrowed down. The concept of “added value” is too broad to be measured in a single graduation study. It had to be zoomed in into a single question that could be measured in the four month graduation period. The first step in finding out how the intermediary can increase the added value for its customer is by understanding how this customer actually values their current service. It is important for each service

company to know which parts of its service are being appreciated and what parts need improvement. Understanding this information will give the intermediary insight in its strengths and weaknesses and show them what generates value for their customers. In general the intermediaries have sufficient knowledge about the financial products there are selling. Delivering good services is however much more than just giving the customer the right product. It also takes aspects into account that are more about the implicit parts of the advisory process such as the friendliness of the intermediary, the reachability and the ability to convey trust. All these aspects and more are part of the overall service perception. Understanding how the customer perceives the service given by the intermediary is a research direction that would not be too time consuming for the intermediary, would not be invasive and would give a lot of information about what the intermediary should do in the future to keep or even increase its clientele. Research showed that companies delivering high quality products and services have a higher customer satisfaction and generally a higher corporate performance than those with products and services of lesser quality (Anderson, Fornell, & Lehmann, 1994), (Zeithaml, 2000). Therefore this research focuses on two aspects of the service model provided by the intermediary. First it considers the service quality as perceived by the customers of the intermediary and second it evaluates used and new communication channels for the service delivery process.

Previous research has come up with a small number of models suitable for measuring service quality as is discussed in the preceding literature review. Of these models the incident model, the complaint analysis, SERVQUAL and SERVPERF scale are most studied and used in practice. Let us now review these models briefly here. The incident methodology would not be suitable for this study as it only shows how the business operates when there is an incident; when something goes wrong. B The most important struggle for the intermediary at this moment however, is to convince their customers that it is worth paying a monthly fee and thus committing themselves to the intermediary for a longer period of time. This is much broader than only acting right when something goes wrong. The incident methodology would not be suitable for the same reason as well. By only focusing on the complaints and not the whole service experience it would just give too limited information. The two other most common used methods are the SERVQUAL and SERVPERF method both taking into account a broad variety of determinants of the total service package and each with their own benefits and drawbacks as is mentioned before. In order to make the decision which methodology is best for this study it should be considered what the strengths and weaknesses are of each method compared to the other. Where the SERVPERF has a higher predictive power, validity and has a shorter questionnaire, the SERVQUAL is more used in the insurance industry and has a higher diagnosing power. The questions are now which of these advantages is most important and how can the disadvantages of that preferable model be reduced or cancelled out. The objective of this research is to give the intermediary an overview of how their service is perceived by their customers and most important to show how the intermediary can improve its service. The final report should give each intermediary an overview of those aspects of its service model that are

underperforming and the aspects that are performing satisfactory. For that using a model with a high diagnostic power is most important. Taking into account that the differences in validity and other psychometric properties are just very limited and that the SERVQUAL itself already has a high validity and reliability makes the SERVQUAL methodology the most appropriate methodology for this study.

The second step is to find improvements on the original scale that will reduce or cancel out the disadvantages of this model. One of the biggest drawbacks of the SERVQUAL methodology is the length of the questionnaire. With 22 questions asked on two scales the model alone is already 44 questions. Not only does this limit the amount of additional questions that can be asked it also will encourage people to drop out of the questionnaire as it will be perceived to be too lengthy. This could endanger the usefulness of the research. For that reason in this study the adapted SERVQUAL methodology of (Brown, Churchill, & Peter, 1993) and suggested by (Babakus & Boller, 1991) is used. Just as in his study the items will be measured in a measured disconfirmation on a seven-point Likert scale varying from “highly below expectations” (1) to “as expected” (4) and up to “highly above expectations” (7), with no labels for the scale items between these. The negative formulated statements of the original model were altered into positive statements as was recommended by both Brown and Parasuraman & Berry (1991).

To understand the methodology used in this research thesis a short description of the usage of the SERVQUAL scale is given. The SERVQUAL methodology measures perceived service quality. This is subjective service quality based on consumers’ judgments about the service delivery. Parasuraman stated in their article that the consumer its perceptions of service quality came from the gap between expectations and performance of this service. In quality literature expectations are defined differently from that of predictions in consumer satisfaction literature. Here it is defined as the desires of a consumer; what service they should receive. When performance exceeded expectations the service quality was perceived to be high. Insufficient service was the result of the perceived performance below the customer its expectations. Although Parasuraman showed in his research that these attributes could be used across all types of industries later studies reported that slight adjustments would enhance the reliability and validity. Therefore the model used in this study is slightly adjusted to be useable in the insurance industry. The model used for the intermediaries is given below in table 1.

**Table 1:** List of SERVQUAL attributes

<b>Dimensions</b>	<b>Items in the original SERVQUAL</b>	<b>Items modified for the intermediary situation</b>
<b>Assurance</b>	Employees who have the knowledge to answer customer questions	The intermediary has up-to-date knowledge of the insurance market

	Customers should be able to trust employees of the firm	-
	-	The customer is satisfied with the intermediary
	Making customers feel safe in their transactions	The intermediary has chosen the right financial products
	Employees who are consistently polite	The intermediary is friendly and polite
	-	The customer knows what he gets for his money
	-	The customer is satisfied with what he gets for his money
<b>Reliability</b>	Providing services at the promised time	The intermediary provides services at the promised time
	Providing services as promised	The intermediary provides services as promised
	Firm should be sympathetic and reassuring	The intermediary is sympathetic and reassuring
	Firms should be dependable	The customer trusts the intermediary
	They should keep their records accurately	The intermediary has accurate records
<b>Empathy</b>	Giving customer individual attention	The intermediary has a solid informal relation with its client
	Employees who deal with customers in a caring fashion	-
	Having the customers' best interest at heart	The intermediary acts in the best interests of its customer
	Employees who understand the needs of their customers	The intermediary understands the needs of its customer
	Having business hours convenient for their customers	The intermediary is reachable through phone or email
<b>Responsiveness</b>	Keeping customers informed about when services will be performed	The intermediary keeps its clients up-to-date about relevant information
	-	The intermediary is pro active



	Willingness to help customers	The intermediary is willing to help its customer
	Readiness to respond to customers' request	The intermediary is available to help its customer
	Providing prompt service to customers	The intermediary answers questions and problems quickly
<b>Tangibles</b>	Visually appealing facilities	The intermediary has visually appealing facilities
	Visually appealing materials associated with the service	
	Employees who have a neat and professional appearance	The intermediary has a neat and professional appearance
	Modern equipment	The intermediary uses modern equipment

The second sub objective of this graduation research is to measure what channels the customers would prefer for their information exchange and contact with the intermediary. For this a number of questions were added in the survey. First the need for information exchange and contact through social media channels such as Facebook, Twitter, LinkedIn and Google+ was asked to the customer. It was also asked whether the intermediary is already using these forms of social media whether the utilization was experienced in a positive or negative way. An open question was added that enabled customers to answer what information they would prefer through these channels. The same was asked for information exchange through a newsletter, offline seminar and online seminar.

Last a number of questions were added about the type of clients that the intermediary are having. This would include questions such as how old the clients were, why they would use an intermediary, how long they are using this intermediary and how often they have contact. This information is not of direct importance for this graduation research but would give the intermediary vital information about its client base and together with the questions about service quality and service channels would give a solid picture about the total service model of the intermediary. The complete list of questions is included in Appendix A.

### 3.2 Measuring reliability

The reliability will be tested using coefficient alpha as is done in previous research (see f.i. (Asubonteng, McCleary, & Swan, 1996) (Parasuraman, Zeithaml, & Berry, 1988)). The alpha coefficient is a measure for the extent of internal consistence between the 23 questions and the correlation among these questions. Reliabilities should be as high as possible. Below 0.60-0.65 are unacceptable and will require additional research. Scores above 0.90 are most desirable. Reliability for the SERVQUAL scale was.

Previous studies showed that changing all the negatively formulated questions into positively formulated ones increases the reliability of the scale (Babakus & Boller, 1991) (Asubonteng, McCleary, & Swan, 1996).

### **3.3 Measuring validity**

To measure the psychometric soundness of the SERVQUAL scale different measures can be applied. The most commonly used in SERVQUAL studies are the face validity, convergent and concurrent validity. The face validity assesses if a certain attribute measures that what it is intended to measure. Commonly in previous SERVQUAL studies this is evaluated a priori to the study by feedback from managerial employees. In almost all studies the 22 scale items have found to have high face validity in different settings (Babakus & Boller, 1991). The face validity is tested in this study by discussing the questions with colleagues. The convergent validity is the compliance between the SERVQUAL scale and a second measure for quality. In this study, in line with the 1988 Parasuraman study the convergent validity will be measured by asking the customer about how he or she would rate the overall service quality of the firm on a score from 1 to 10. The correlation between this alternative measure of service quality and the SERVQUAL scale will give information about the convergent validity. A second but indirect measure for convergent validity is the coefficient alpha. As coefficient alpha measures the internal consistency between the 23 scale items it shows whether these items do represent a certain construct; in this case service quality. Another commonly used method is to measure concurrent validity by comparing the SERVQUAL scale with a variable that ought to be related to quality. The concurrent validity will be measured by the questions “if the customer would recommend the intermediary to his friends, relatives or associates” and “if the customer would use the service of the intermediary in the future”.

### **3.4 Sample definition and data collection**

In this graduation research the sample exists of the current client base of the eleven intermediaries that participated in the 2013 Cedep master class. The research will be done on an individual basis for each office and will be compared with each other for evaluation. The required data was collected using a questionnaire developed with the online research platform MWM2. The survey was made available online and accessible via both the computer and mobile phones and tablets. A paper version was not created as the costs for sending out all the questionnaires would be too high for this research thesis and the time required for processing would be too long. This MWM2 platform licensed by a.s.r. simplified the tasks for the intermediary limiting it to only the providing the available email list of their customers. A mail invite to the online survey area was sent and a reminder 10 days later. Customers were only able to access the survey through that mail invitation. If the response was insufficient after the first reminder a second and also final reminder would be send out. The data was exported and evaluated using Excel. The survey and email templates were both kept operational for future usage by a.s.r.

#### **4. DATA ANALYSIS**

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- Classified, available on request -

## 5. CONCLUSION AND DISCUSSION

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Due to the installment of the Financial Markets Amendment Decree in the beginning of 2013 the financial intermediary was prohibited to receive any form of indirect commission. From that moment on a separation between the given advice and the financial product was obligated and the insurance intermediary was forced to rethink its current service model in order to convince consumers of the added value of their service. As the Dutch insurance group a.s.r. conducts a large part of its business through these intermediaries they also considered it to be vital to support those intermediaries struggling with the recent changes in legislation and market. A first step in understanding the needed transition is to understand how the customer perceives the value of the given service. Therefore this research is used to come up with a model to evaluate the quality of the utilized service model. The quality model was first tested in this study on the 2013 a.s.r. Cedep intermediaries as part of an existing master class but should later be applicable to all other intermediaries as well. The research question as given in the introductory chapter of this thesis is the following:

*How can the quality of the services and service processes of the 2013 a.s.r. Cedep intermediaries be inventorised and using that information how can the intermediaries improve these services and service processes?*

The literature study showed that the SERVQUAL method is the most preferable scale for evaluating the service quality of the intermediary. The utilized model uses 23 questions on various quality attributes to create a complete picture of the quality of the service given by the intermediary. The SERVQUAL scale compares the perception of the service performance with the expectations of the consumer. Delivering quality services in this model means consumer perceptions meeting or even exceeding expectations. Past literature reveals that the model has a high reliability, validity and diagnostic power that combined and used for this sector outperforms other common used models.

The results from this thesis reveal that the response rate varied between the 8 and 18.8 percent. This percentage seemed to be marginally dependent on the degree that intermediaries actively promoted the questionnaire. Although actively promoting increased the response rate it might also create bias if only the positive customers were encouraged to fill in the inquiry. A proposed advice be that in the case of a low response the questionnaire is advocated in the monthly newsletter sent out by the intermediary. In this way there is no active selection in the invited customers. The results also showed that the largest majority of the customers receiving the survey was positive about the total procedure and only a very limited quantity of complaints were found in the responses. These complaints were nonetheless largely from customers already unsatisfied with the service of the intermediary and not the inquiry in specific. The results report a very high reliability of the model with a coefficient alpha score of between 0.969

and 0.986. This shows that the internal consistency for measuring the service quality is good and the different variables are indeed measuring the same construct. It also tells us that the model can appropriately be used to measure the effects of changes in the service model on the perceived quality by the customers of the intermediary. This allows the intermediary to continuously monitor the service quality and evaluate any taken improvements in the future. The model also showed a high concurrent and convergent validity with other measures of service quality. Based on the total of the aforementioned information it can be concluded that the adjusted SERVQUAL model is very suitable for inventorizing the service quality of the Cedep 2013 a.s.r. intermediary and can also eventually be used for all other a.s.r. intermediaries as well.

Now going into depth about the actual results of the model. The model showed that a pattern could be seen in the values of each attribute. Down the line the customers valued the same attributes as performing the best and the same as performing the least. The report reveals that the customers report that the intermediary is very friendly and polite, willing and able to help, that they trust the intermediary and that he has a neat and professional appearance. The report also gives the attributes that on average need the most additional attention. The customers of the participating intermediaries reported that they would like their advisor to be more pro-active, that they should improve its up-to-date knowledge and keeps them more informed about relevant news. The customer also has doubts about whether they have the right products or not. These results might suggest that the communication between the intermediary and the customer is somewhat insufficient. The customer might not be clearly informed about the total amount of time and research that the intermediary is performing in order to find the right product. The study proposes a solution based on an in-depth interview; by simply registering all hours that are invested in each customer, the intermediary is able to directly show how much time is invested for each specific step and for each customer. Measuring and understanding how much time each aspect of the service process is taking does not only benefit the communication it also allows the intermediary to have a closer look at its internal efficiency.

Finally this reports evaluates the channels through which this communication is preferred by the consumer. In contradiction with the expectations social media channels such as Facebook, Twitter, LinkedIn and Google+ do not have the penchant as communication channel. It can be concluded that the current client base of the intermediary is not interested and ready for the usage of newer channels for the information exchange and contact with the intermediary. They still prefer the “older” ways such as email, telephone or direct contact. But although at this moment the need is still rather small the intermediary should take into account that there is a large change that this would increase within the following years. These newer forms of media are mostly used by the younger generations while the current customers of the intermediary are largely above the age of 40 according to the survey. This could explain why the need for these forms of media is still relatively small. When however these media forms

keep winning territory when in time the younger generations also become older and more likely to become the target group of the intermediary he should be able to use these communication channels for his service provision. Intermediaries that keep ignoring the possibilities will eventually lose opportunities to build a solid relation with their customers.

### **Limitations to the model and proposed solutions**

During the implementation phase of the SERVQUAL model for the 8 intermediaries a couple of problems and obstructions were revealed. In order to make the model more applicable for future utilization this paragraph gives the most paramount problems and proposes possible solutions. The first problem is related to the execution of the SERVQUAL study. In order to complete the online inquiry an email list of all clients of the participating intermediary has to be acquired. During this study it was revealed that in a great number of cases the insurance intermediary was unable to retrieve the needed list in a timely manner, either due to insufficient knowledge about the utilized customer information system or due to insufficient time. An easy solution for this would be to assign the responsible a.s.r. account manager to visit the participating intermediary and obtain the complete email list. This would not only reduce the time of the SERVQUAL procedure but will also release the intermediary from almost all effort making the participation in this much more approachable.

A second problem might be that this whole process is too time consuming for a.s.r. as they have to acquire the email list, format the inquiry, send the invites and retrieve and evaluate all the results. As a solution to shorten this process, the inquiry and invitation system are all made standard in the online system licensed by a.s.r. The online survey is already online available in the MWM2 survey tool and can be easily adapted for each intermediary. The example reports in the Appendices can be used as a draft for all the other offices and makes it easier to process the results. Besides, the excel data evaluations and reports are all standardized and will require just minor work filling in the results for each specific intermediary. By using these templates the effort taken to conduct these studies in the future will be much lower.

The last important limitation arose due to the small number of participating intermediaries. Because of the 4 month time limitation of this study it was not possible to involve all a.s.r. intermediaries in this study. Therefore a smaller group was chosen that already participated in an a.s.r. support class. During the evaluation of the results it became clear that there might be some bias towards a more optimistic view on the given service. In all results the service performance is exceeding the expectations. Previous research however showed the other way around in which almost all actual performance variables is less than the expectations. This study uses a benchmark of the average of all participating intermediaries to coop with that problem. In this way the intermediary can not only see his absolute score but also the score in relation to its colleagues. The problem here is that in order to use this benchmark the average

of a large number of intermediaries has to be used. Seven in this case is far too low for that. This problem however can be solved over time as more and more intermediaries are willing to participate in this quality study and the benchmark will be an average of this larger group of participators.

So, in short. The report shows that the model is very suitable for measuring the service quality of insurance intermediaries. The used questionnaire has a high reliability and validity. Thereby, the survey is positively received by almost all customers of the participating intermediary. The resulting data can be used to improve those attributes scoring either low in absolute sense or low compared to other intermediaries. During the first application of this model for the 8 a.s.r. intermediaries a standardized inquiry and email invite is installed in the a.s.r. questionnaire system. This will make it easier for future utilization. In combination with a designated account manager assisting each participating intermediary it will make the process much easier and faster for both a.s.r. as well as the intermediary. In this way this model can be used as a good addition to the service provision from a.s.r. as an insurance company and can help their intermediaries not only struggle with current problems but also keep improving their service in the future.

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## APPENDIX A LIST OF QUESTIONS SERVQUAL SURVEY

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1. What is your age?
  2. What is your income?
    - a. < € 34.500 (average income)
    - b. € 34.500 - € 69.000
    - c. > € 69.000
  3. Are you a private or corporate customer?
  4. (In the case of a private client) How many members are in your household?
    - a. One
    - b. Two
    - c. Three
    - d. Four
    - e. Five
    - f. Six or more
  5. (In the case of a corporate client) How many employees does your organization have?
    - a. Independent
    - b. Less than 10
    - c. 10-50
    - d. 51-250
    - e. More than 250
  6. What is your reason or are your reasons to choose for an intermediary?
    - a. Convenience
    - b. Individual approach
    - c. Habit
    - d. Security
    - e. Financial advantage
    - f. Other, namely..
  7. What is your reason or are your reasons to choose specifically for intermediary X?
    - a. Location
    - b. Reputation
    - c. Existing customer
    - d. Recommended by acquaintances
    - e. Other, namely..
  8. How did you get in contact with intermediary X?
-

- a. Phone book
  - b. Magazine or newspaper
  - c. Television
  - d. Online
  - e. Recommended by acquaintances
  - f. Other, namely..
9. Do you have all your insurances at intermediary X?
- a. Yes
  - b. No, reason..
10. How often do you get into contact with intermediary X?
- a. A few times a year
  - b. Once a year
  - c. Every 2-4 years
  - d. Every 5 years or less
11. How long are you already using the services of intermediary X?
- a. Less than 1 year
  - b. 1-3 years
  - c. 3-10 years
  - d. Longer than 10 years
12. SERQUAL:
- a. The intermediary has up-to-date knowledge of the insurance market
  - b. The intermediary has chosen the right financial products
  - c. The intermediary is friendly and polite
  - d. The intermediary provides services at the promised time
  - e. The intermediary provides services as promised
  - f. The intermediary is sympathetic and reassuring
  - g. The intermediary has accurate records
  - h. The intermediary acts in the best interests of its customer
  - i. The intermediary understands the needs of its customer
  - j. The intermediary is reachable through phone or email
  - k. The intermediary keeps its clients up-to-date about relevant information
  - l. The intermediary is pro active
  - m. The intermediary is willing to help its customer
  - n. The intermediary is available to help its customer
  - o. The intermediary has a neat and professional appearance
  - p. The intermediary uses modern equipment
  - q. The intermediary answers questions and problems quickly
-

- r. The customer is satisfied with the intermediary
  - s. The customer trusts the intermediary
  - t. The customer knows what he gets for his money
  - u. The customer is satisfied with what he gets for his money
  - v. The intermediary has a solid informal relation with its client
  - w. The intermediary has visually appealing facilities
13. Through which of the following channels would you prefer your contact moments with intermediary X?
- a. Mail
  - b. Online chat
  - c. Telephone
  - d. Social media
  - e. At the office of intermediary X
  - f. At your own office or house
14. Should your intermediary keep you up to date of relevant information through social media?
- a. Certainly
  - b. Probably
  - c. I do not know
  - d. Preferably not
15. A. Through which social media channel do you prefer to receive this information?
- a. Facebook
  - b. Twitter
  - c. LinkedIn
  - d. Google+
- B. How is the intermediary using these social media channels at this moment?
- a. Good
  - b. Bad / Not
16. What information would you like to receive through social media?
17. A. In the case of important (legal) changes and information about new or existing products through what channel or channels would you like to be informed?
- a. Newsletter
  - b. Offline seminar
  - c. Online seminar
- B. How is the intermediary using these channels at this moment?
- a. Good
  - b. Bad / Not

18. How would you grade the service of your intermediary?

- a. 1
- b. 2
- c. 3
- d. 4
- e. 5
- f. 6
- g. 7
- h. 8
- i. 9
- j. 10

19. Are you intended to stay with this intermediary in the future?

- a. Certainly
- b. Probably
- c. I do not know
- d. Probably not
- e. Certainly not

20. Would you recommend intermediary X to your family, friends and acquaintances?

- a. Certainly
- b. Probably
- c. I do not know
- d. Probably not
- e. Certainly not

21. What can intermediary X improve in its service?

22. If you are unsatisfied about the service of intermediary X at what email address can he contact you?