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Relationship between Insurance Companies' Brand Value and Customers' Satisfaction

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ABSTRACT

Not very long ago, only the physical and tangible properties of a company or an institute were measured as its assets. But there is no doubt that today in the age of technology and competition, sometimes value of the intangible assets is much more than that of the tangible assets. "Brand" is one of the most important properties. From a legal point of view, the brand value is of great importance in today world. In our country, brand valuation (brand pricing) is a newly born area that has not yet achieved its real position. One of the main obstacles of growth of this science is the difficulty of access to the financial and statistical data. Insurance industry is a high risk industry with too many users which has a double importance in our growing and developing country. In the present research we do brand valuation for "B" and "A" insurance companies through brand finance method and then investigate the customers' satisfaction and the relationship between these two.
KEYWORDS: Brand value, brand valuation, insurance industry, brand finance model

INTRODUCTION

Brand is one of the most important invisible assets of any company. The brand value and its calculation plays an important role in every company's assets, however enough regard and importance is not attached to it in Iran.

In today world, insurance industry is considered as a key industry and thus knowing the brand value of the insurance companies can be very useful for this industry.

In the present research we are aimed to perform brand valuation for two insurance companies and quantitatively calculate satisfaction of their customers and then investigate the relationship between them.

For brand valuation, this research uses the brand finance method which is one of the most credible brand valuation methods.

Research background and theoretical fundamentals

Brand

One of the most important intangible assets and properties of a company is brand. In 1989 the "Marketing Scientific Association" defined brand value as: an added value which is created by the "name" in market through a better profit margin or market share for a product and can be considered as financial asset and a set of behaviors and relationships by the customers and other channel members (Yasin et al, 2007). According to this definition the value of a brand is indeed consequence of the consumers' perception of the brand which is influenced by numerous factors. Thus improving the value of a brand means improving the consumers' perception of the quality of the commodity they use (Graham et al, 1994).

Aker (1991) defines the special value of a brand or trademark as a set of brand-related assets and debts subtracted from or added to the value which is provided by the company's product or services. The special value of brand is defined by Cohler as distinct effect of the knowledge of a brand on the consumer's response and reaction to the brand. Brand's special value increases the consumers' satisfaction and decreases the company's vulnerability to the competitive marketing activities and crises.

Customer satisfaction

The "customer satisfaction" index is one of the most effective and important indices in economic issues since customer is the principal pillar of any industry. Customer satisfaction is supposed as one of the interior activities in an organization which is indeed manifestation of the organization's biases and tendencies toward meeting and catering the customer's requests and demonstrates the direction of the service-product quality improvement.

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Juran believes that customer satisfaction is a state in which the customer feels that the features of the product are consistent with his feelings; dissatisfaction is a state in which the shortcomings and defects of the product cause the customer's discontent, complaint, and criticize. In one of the definitions, the customer satisfaction is a state or response (reaction) expressed by the consumer and customer about buying or consuming a product.

Lingfield defines customer satisfaction, in terms of psychology, as a feeling which is created as a result of comparison between received products and the customers' needs and requests and the social expectations about the products.

According to Rapp, customer satisfaction is defined as an individual attitude which is resulted from continuous comparisons between organization's real performance and customer's expected performance.

Tapfer states that the customer satisfaction doesn't depend on the type of commercial activity of an organization but it depends on the ability and capability of the organization in providing the quality expected by the customer.

Such issue is manifested in the insurance companies, because due to diversity of these companies and all individuals' need to insurance, most of the individuals in a society have something to do with it and thus it gets very important; besides, in such companies, the issue of customer satisfaction is of great importance due to their diversity.

Research hypothesis

The principal hypothesis of the present research is that the brand finance method is capable of doing the insurance companies' brand valuation.

Research findings

In the present research we valued two insurance companies, A and B, and then evaluated their customer satisfaction.

Brand valuation of company A using brand finance method:

Extraction of the operational and nonoperational incomes from past five years' financial bills is as follows:

Table 1 : calculation of Income (operational & nonoperational) in A company

	1389	1390	1391	1392	1393
Operational income	964,718,021,553	1,743,266,697,333	2,717,358,915,028	2,790,179,658,421	6,140,927,000,000
Nonoperational income	59,173,383,700	83,638,686,744	216,931,363,343	326,246,390,086	136,529,000,000
Income (operational & nonoperational)	1,023,891,405,253	1,826,905,384,077	2,934,290,278,371	3,116,426,048,507	6,277,456,000,000

In order to obtain the growth rate average we, first, obtained the annual growth coefficient and, then by calculating the geometric average we could obtain the required growth coefficient.

First year's growth coefficient: 1.784

Second year's growth coefficient: 1.606

Third year's growth coefficient: 1.062

Growth rate average= $\sqrt[3]{1.7848 \times 1.606 \times 1.062}$

We calculate the total assets (except intangible assets) for the past five years and then obtained the minimum efficiency rate, i.e. risk free interest rate, which is the same as the minimum assets efficiency.

Rf=minimum efficiency rate or risk free interest rate which is the same as bank interest.

In order to calculate the interest (profit) we should subtract the costs from the total income (operational and nonoperational incomes). Here cost means the minimum assets efficiency calculated in step3 which will be calculated as the efficiency.

In this step we should calculate the future interest and income (next 20 years); that is, first the growth rate coefficient should be obtained, then subtracting the costs from the interest the pre-tax interest is obtained and after subtracting the 25% tax the post-tax interest can be calculated.

Calculating the interest rate in brand finance method is done through CAPM formula.

CAPM= Rf+B (Rm-Rf)

Rf: is the risk free efficiency or the interest paid by the banks for capitals, which is 20% in Iran.

Rm: is the efficiency of investment in market which has been determined 25% for insurance industry by the experts.

B: or the brand risk based on the brand finance methodology which is obtained through inquiry forms filled by experts and connoisseurs of insurance industry. The experts and connoisseurs were given the inquiry forms, which included 8 questions, and were asked to score the question in a 0-10 range. Then by collecting data and averaging we obtained the Beta.

What follows is the inquiry form given to the experts in order to extract Beta.

Measures

Brand's age 0-10
Distribution network 0-10
Market share 0-10
Brand's position in market 0-10
Sales growth 0-10
Marketing costs 0-10
Customers' knowledge of advertising activities 0-10
Customers' knowledge of brand 0-10

For insurance A, Beta was extracted 1.3 and then, through CAPM formula, the interest rate was calculated 25.

CAPM interest rate=Rf+B(Rm-Rf)

(Beta) interest rate=0.20+1.3(0.25-0.2)

In order to calculate the future years resources' financial value, we should obtain the adjustment factor:

That is

Adjustment factor for the first year=1+interest rate=1+0.27=1.27

And for the next years, we use the engineering economy formula:

$$\frac{1}{(1+r)^n}$$

Finally, the future years resources' financial value is obtained through dividing the post-tax interest by the adjustment factor.

By averaging the future years resources' financial value we can obtain the mean.

In the brand value calculation for insurance A, the total financial value of the future years' resources was obtained 355,226,788,846,175 and after averaging, its mean was calculated 17,761,339,442,309 for 20 years.

As for calculating the insurance A's value, it must be noted that this value is obtained through dividing the mean of the future resources' financial value by the mean of the investment efficiency (which is 25 according to the experts' opinion).

Sum of the future resources' financial value	355,226,788,846,175
Mean of the future resources' financial value	17,761,339,442,309
Mean of the investment efficiency	0.25
Value of A company Insurance	71,045,357,769,235

To achieve this goal, a questionnaire including 17 questions was distributed among 100 of the customers of insurance A (across Tehran, of coursed some of them were asked by phone).

The questionnaire was as follows:

Table 2: BVA parameter

No.	Description	Score Lowest			highest	
		1	2	3	4	5
1	Brand					
2	Accessibility (number of branches)					
3	Location of branches					
4	Service providing speed (period of responding at time of an incidence)					
5	Service providing quality (quality level of providing services for customers)					
6	Diversity and scope of services					
7	Private insurance					
8	Governmental insurance					
9	Company's financial support					
10	Electronic services (providing personal and internet services)					
11	Providing special services					
12	Advertisement quality					
13	Cost of services					
14	Staff behavior					
15	Daily work's time duration					
16	Branches' building front face					
17	Other items					

For each item we specified five scores, so the responders scored the items from 1 to 5. Then by averaging, we determined the brand share in insurance A which was 0.059. And by multiplying this number by the value of insurance A, the insurance value's brand share was determined.

Brand value of insurance A 4,191,676,108,385

Through the same method the brand value of insurance B was calculated 9,227,470,862,000.

In the next step, we evaluated and measured these two insurance companies' customer satisfaction, and the following results were obtained:

Table 3 : satisfaction in company A and B

Insurance company	Level of satisfaction
B	0.793
A	0.672

As it is observed, the brand value of insurance B is higher than A and regarding this point, it can be said that the level of satisfaction and brand value have a direct relationship.

Conclusion

The present research is aimed to study the relationship between the brand value of the insurance companies and the customer's satisfaction in these companies, and the obtained results show that there is a direct relationship between them.

Data collection and gathering information was a difficult job because the companies avoided from giving information. Besides, it was difficult to communicate with customers which resulted in reduction of the number of samples for answering the questionnaire.

In the brand finance method, for future predictions, various economic, technical, and social factors should be regarded; this was impossible due to the current economic conditions thus we obtained the growth rate with regard to the previous data. With regard to the fact that brand valuation is a newly born issue in Iran, it is suggest that other methods be used for brand valuation of the insurance companies.

– Investigation and comparison of similar foreign cases can manifest the strong and weak points.
– Studying the effect of social and economic factors for future data calculation.
– Other studies in order to investigate the fact that how much the clarification of the invisible assets in financial bills can change the results.

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