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SATISFACTION ISSUES IN THE REINSTATEMENT OF FLOOD DAMAGED DOMESTIC PROPERTY

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ABSTRACT: The frequency of flooding is forecast to increase in the UK, as is the number of properties at risk of flooding. Following major floods in England and Wales in recent years, questions have been raised concerning the quality of service received by insured homeowners during the repair of their properties. At present there is little existing research that evaluates homeowners' perceptions and their levels of satisfaction with respect to the performance of their insurers, repair and restoration companies and loss adjusters during flood damage reinstatement claims. As part of a wider investigation, a review is presented of issues relating to satisfaction and service quality. A proposed approach is put forward for measuring satisfaction of insured homeowners in flood claims. Knowledge of the determinants of insured homeowners' satisfaction in flood damage repair works would be beneficial to all stakeholders involved in the claim chain and should lead to an improved service for homeowners.

Keywords – Domestic Properties, Flood Damage, Homeowners, Insurers, Satisfaction.

INTRODUCTION

Satisfaction and service quality have received significant attention over the years, resulting in a huge body of literature in several different disciplines (including economics, business, marketing, psychology and sociology), each based on slightly different theoretical premises.

Despite conceptual controversies on satisfaction and service quality, it is clear that businesses need to pay attention to the service perceptions of their customers in order to maintain satisfaction and loyalty. It has even been suggested that in today's competitive business world, it is no longer sufficient to merely satisfy customers by meeting their needs and expectations. Instead, businesses ought to 'delight' customers (i.e. exceed their expectations), which is thought to engender loyalty (Jobber, 1998; Kotler and Armstrong, 2001), whereas a 'satisfied' customer may remain a customer so long as there is no better service available.

There is currently insufficient knowledge of the issues associated with the satisfaction of insured homeowners in flood damage claims. Focused research would therefore be beneficial in providing a knowledge base upon which service providers (insurance companies, loss adjusters, flood restoration firms, etc.) can potentially draw, in their effort to deliver services that will meet (or exceed) insured homeowners' needs and expectations.

The study therefore presents a review of satisfaction and service quality in the context of the above flood-related issues, together with a proposed approach for measuring homeowners' satisfaction with the services received during flood insurance claims.

SATISFACTION AND SERVICE QUALITY

Satisfaction and service quality are two important constructs whose interrelationship has been the subject of much research. In order to understand the two concepts, a consideration of customers' needs and expectations is essential.

Understanding Satisfaction

Although the subject of 'satisfaction' has received considerable attention from various disciplines, there is still no consensus on the definition of satisfaction, an admittedly difficult concept to define (Oliver, 1997). Marketers, argue that if a consumer perceives the performance of a product (good or service) as being below their expectations, then dissatisfaction results. Alternatively, a consumer is happy or satisfied if the benefits received or performance after purchase either matches or exceeds expectations (Jobber, 1998; Kotler and Armstrong, 2001). Satisfaction involves an evaluation or judgment of perceived performance against some standards (expectations).

Bitner and Hubbert (1994) conceptually describe satisfaction using two frameworks, namely:

- Transaction-specific satisfaction - the consumer's dis/satisfaction with a discrete service encounter, and
- Overall satisfaction - the consumer's overall dis/satisfaction with the organisation based on all encounters and experiences with a particular organization.

Although not universally accepted, Jones and Suh (2000) suggest from their work that transaction-specific satisfaction can be empirically distinguished from overall satisfaction.

Whatever the conceptual controversy on satisfaction, the idea of expectations is prevalent in literature. What a customer 'expects' from a service transaction or an organisation's overall offerings, is seen as the yardstick or "frame of reference" against which perceived service quality or performance is measured to form the consumer's feelings of dis/satisfaction (Gabbott and Hogg, 1998).

In this research, satisfaction will therefore be understood to mean the consumer's fulfillment response resulting from a judgment that a product or service feature, provided (or is providing) a pleasurable level of consumption-related fulfilment, including levels of under and overfulfilment (Oliver, 1997).

Satisfaction and Service Quality: distinct but interrelated

Customer satisfaction and service quality have been presented as two distinct but interrelated concepts (Parasuraman *et al.*, 1988; Bitner and Hubbert, 1994; Stafford *et al.*, 1998). Service quality is defined as the consumer's overall impression of the relative inferiority/superiority of the organisation and its services (Bitner and Hubbert, 1994).

However, there is still some lack of clarity on the conceptual nature of the relationship and distinction between customer satisfaction and service quality. Stafford *et al.* (1998) attribute the apparent confusion about the nature of their relationship to the common link with the disconfirmation paradigm (a concept dealt with later in the discussion). The authors conclude that satisfaction is generally described as being experiential, transitory, and transaction-specific, while perceptions of service quality are considered to be more enduring. However, satisfaction is not only transaction-specific but also cumulative. Therefore a broader view is that both service quality and customer satisfaction illustrate both global and transaction-specific elements of their nature (Bitner and Hubbert, 1994).

Another debate is whether customer satisfaction leads to service quality, or vice versa. Parasuraman *et al.* (1988) pointed out that perceived service quality is a long-run overall evaluation of a service, whereas satisfaction is a transaction-specific evaluation. They argued that customer satisfaction leads to service quality in the sense that incidents of satisfaction over time result in perceptions of service quality. However, others found that service quality is in fact an antecedent of customer satisfaction, which exerts a stronger influence on purchase intention than does service quality (Lee *et al.*, 2000).

Expectations and the disconfirmation model

Customer expectations form a central role in many models of service quality and customer satisfaction (Folkes, 1994). Customer expectations are the customer's beliefs about the range of likely outcomes of service offerings against which performance is evaluated (Folkes, 1994; Zeithaml and Bitner, 2000). In view of the role of customer expectations in service quality evaluations, a thorough knowledge and consideration of expectations by service providers is vital.

Zeithaml and Bitner (2000) advocate the "Gap Model of Service Quality" which focuses on four customer gaps, namely: not knowing what customers expect, not selecting the right service designs and standards, not delivering to service standards, and not matching performance promises. This conceptual model is based on the rationale that the primary reason why many firms do not meet their customers' expectations is due to the firms' lack of understanding of exactly what those expectations are, i.e. a gap exists between company perceptions of customer expectations and what customers actually expect.

The Gap Model of Service Quality essentially represents the disconfirmation model (see Fig. 1), which posits that satisfaction (with goods or services) results from a subjective comparison of expected and perceived levels of performance.

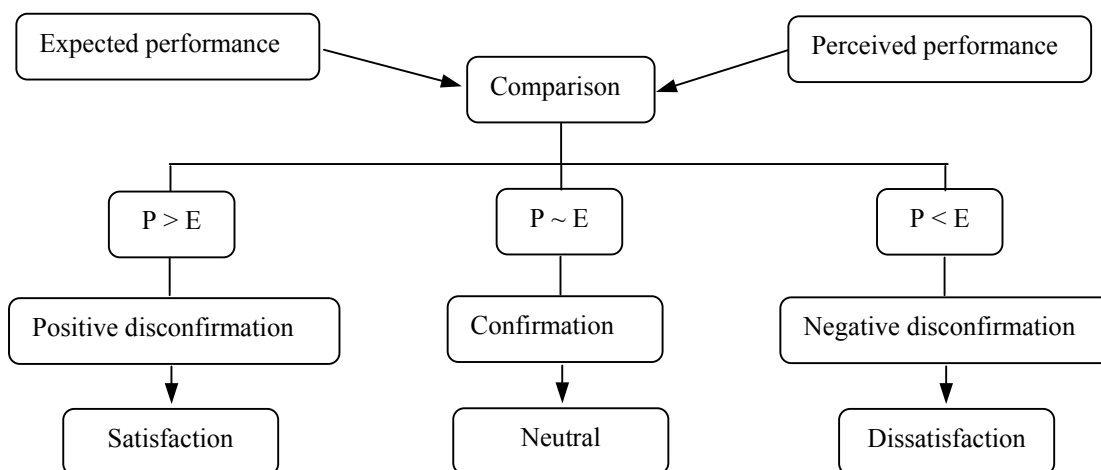


Figure 1 - The disconfirmation model of customer satisfaction

P = Perceived performance
E = Expected performance

Customers' expectations of services are formed and/or influenced by a variety of factors such as: customer's past experience (Jobber, 1998; Zeithaml and Bitner, 2000); service provider's explicit promises (Jobber, 1998; Zeithaml and Bitner, 2000); previous service encounters with competitors (Gorst, 2000); word-of-mouth communication (Jobber, 1998; Zeithaml and Bitner, 2000); and reports on companies and documentaries (Gorst, 2000). Some sources of expectations, such as service providers' explicit promises, can be influenced (controlled) by the service provider. Therefore managing expectations is an important task for service providers since they have an opportunity to influence (via controllable expectations) the yardsticks that their customers will ultimately use to evaluate service quality in determining whether or not they are satisfied with the service received.

Needs and Satisfaction

Any business' efforts towards customer satisfaction would be futile without a thorough consideration of customers' needs and expectations. Needs (human) are seen as "states of felt deprivation", which includes basic physical needs for food, clothing, warmth, and safety; social needs for belonging and affection; and individual needs for knowledge and self-expression (Kotler and Armstrong, 2001). Therefore a need is a condition where something 'necessary' (e.g. food) or 'desirable' (e.g. entertainment) is lacking.

Customers' needs, in the business context, may vary from individual to individual, compliment each other, can be in conflict with each other (Chisnall, 1985), may be satisfied simultaneously by a single product (Foxall *et al.*, 1998) and/or are not always entirely definitive and absolute (Chisnall, 1985).

In the context of this research, homeowners' needs are the desires and requirements of insured homeowners concerning the repair/reinstatement of their flood damaged domestic properties (adapted from Chinyio, 1999).

Needs, Expectations and Satisfaction

Customers' needs and expectations feature prominently in models of service quality and satisfaction. It is useful, however, to underscore the distinction and interrelationships among the three concepts. Whereas, needs denote a perceived condition of lack in something desirable or requisite, expectations designate what the customer feels they should receive in a specific service encounter. Needs (personal), *inter alia*, influence the formation of customers' expectations of service quality. Although expectations can either be 'realistic' or 'unrealistic', they still form the basis upon which decisions are made by persons to expose oneself to a service encounter, since the individual has an idea of what is likely to occur if a particular course of action is taken. What a person 'expects' from a service encounter has been highlighted as the standard against which service quality or performance is evaluated to determine an individual's feelings of satisfaction or dissatisfaction.

Measuring Customer Satisfaction

The measurement of customer satisfaction is a fundamental component of service quality, which involves the assessment of how well customers' expectations are being met or exceeded in a company's offerings, by comparing expectations of perceived quality with actual performance. The measurement of customer satisfaction is not an end in itself; the aim should be to determine the level of customer satisfaction with the services or goods provided by an organisation, often in the context of continuous improvement.

Satisfaction has been measured using several different approaches, the most widely used methodologies and techniques being SERVQUAL, SERVPERF, and the American Customer Satisfaction Index (Gorst, 2000).

SERVQUAL is a 22-item instrument for measuring customers' expectations and perceptions along five quality dimensions, namely: tangibles, reliability, responsiveness, assurance and empathy (Parasuraman *et al.*, 1988). The SERVQUAL model has not been without criticism, one of which pertains to the lack of a clear link between satisfaction and perceived service quality (Duffy and Ketchard, 1998).

SERVPERF is an alternative model that was later developed to mitigate the limitations of the SERVQUAL methodology, based on the findings that service quality does not depend on expectations and can be directly measured by simple performance based measures of

service quality (Cronin and Taylor, 1994). SERVPERF does not seem to be as popular as SERVQUAL.

The American Customer Satisfaction Index (ACSI) is another methodology for measuring satisfaction. It was first introduced in 1994 by researchers at the National Quality Research Centre, Michigan, as a measure of quality of goods and services as experienced by customers (Zeithaml and Bitner, 2000). A customer satisfaction index is usually applied to benchmark customer perceptions of an organisation over a period of time; this makes the technique more attractive for longitudinal studies.

FLOODING, FLOOD CLAIMS AND INSURED HOMEOWNERS' SATISFACTION

Flooding from rivers is historically a natural occurrence, with its own benefits to local economies and ecology. Although flooding is natural and inevitable (Environment Agency, 2003), it causes substantial damage to property and sometimes results in loss of human life and livestock when it occurs in areas populated by humans (Smith and Ward, 1998). In the UK for instance, there have been several significant river floods, the most destructive ones being those in 1947, 1953, Easter 1998 and Autumn 2000.

Flooding: the physical event

By definition, a flood generally involves the inundation or overflow of water over land that is not normally submerged (Ward, 1978; *in* Smith and Ward, 1998). Flooding occurs as a result of one or more events such as rainfall filling rivers, streams and ditches; coastal storms resulting in overtopping and breaching of coastal flood defences; blocked or overloaded drainage ditches, drains and sewers; heavy rain resulting in run-off flowing overland; or rain soaking into the ground and raising ground water levels (DTLR, 2002). Although commonly thought of in terms of river or coastal, localised flooding can result from broken water mains, which does not normally lead to property being flooded above ground level (DTLR, 2002).

Human activity is blamed for increasing the risk of flooding from rivers and streams in many areas. In particular, development may have reduced the natural capacity of floodplains and increased the rate of surface water run-off.

Flood risk in the UK

Flood risk for a property is generally understood as a combination of the likelihood of a flood occurring and the consequences of the flood in terms of damage caused or impact (DTLR, 2002). In England and Wales, the areas at risk from flooding have been mapped into what is known as the Indicative Floodplain Maps (IFM) which are available on the Environment Agency website. Several criticisms have been advanced against the IFM such as the accuracy of the maps since they do not take into account the effect of flood defences, local topography, and small flood risk areas such as those at risk of flooding due to urban drainage. However, the maps are useful in providing an overview of the risk of the general flooding.

Most areas at risk from river flooding are protected using man-made flood defences, which only reduce the likelihood of flooding. Defences can be breached or overtopped due to more extreme events, as they are designed to withstand specific flood heights.

Over 5% of the people in England live lower than 5 metres above sea level, including large parts of our major cities such as York and London. It has also been suggested that about 7% of the country is likely to flood at least once every 100 years from rivers. In addition, approximately 30% of the coastline is developed and around 1.5% of the country is at risk from coastal flooding (DTLR, 2002). As highlighted in Table 1, assets with a capital value of

£207 billion, including about 1.8 million homes and 140,000 commercial properties, are at risk from river or coastal flooding in England. These risk levels suggest that flooding is a potentially costly problem in Britain.

Table 1 - Flood Risk in England and Wales

Description	Extent/Cost
Domestic properties	1.8 million
Industrial/Commercial properties	140,000
Agricultural Land (in hectares)	1.4 million
People	3,600,000
Capital Value in vulnerable areas	£207bn
Average annual damage (without flood defences)	£3,200m
Agricultural Land (hectares)	£950m
Source: DEFRA (2001)	

The effects of flooding to domestic properties in the UK

Floods can have devastating effects, especially when they occur without warning. The most visible and obvious impact of floods upon households is the physical damage to the fabric of the building and contents, which may or may not result in financial loss to the homeowner. However, other more 'indirect' losses, which are generally associated with disruption to the 'normal' course and quality of life, are often overlooked (see Green *et al.*, 1983).

The stress associated with losing personal belongings, having to live in temporary accommodation while repairs are undertaken, and the trauma of the clean-up and restoration can be considerable (DTLR, 2002). The impact of flooding on households is influenced by factors broadly classified into two categories (Green *et al.*, 1983):

- Flood characteristics - duration, depth, speed of development, whether anticipated or not; weather conditions; contaminants (sewerage, oil, silt, etc.)
- Individual's characteristics - age, prior health status, prior stress levels, whether or not evacuated and duration of; event anxiety; aftermath anxiety.

The physical damage caused by flooding has been found to be highly dependant on flood characteristics - the scale and nature of the flood event (Soetanto *et al.*, 2002).

Flood-damage reinstatement services for insured homeowners

Insurance is primarily a method for redistributing flood losses, in which the insured join forces with a financial institution in advance, to spread the financial loss caused by floods over a number of years by paying an annual premium (Smith and Ward, 1998). In this manner, insurance (flood cover) enables householders and businesses to minimise the financial cost of damage from flooding (ABI, 2002).

Principally, insurance allows insurers to receive a premium payment from the insured in return for a guarantee of payment of recompense should the insured suffer a loss of a specified type. Since many people pay premiums over long periods, the occasional losses by particular people can be recompensed within the total premium fund (Clark *et al.*, 2002).

In the event of flood damage to their domestic properties, homeowners submit a claim to their insurer to finance the reinstatement of their domestic property to a 'pre-flood' condition. Reinstatement of flood –damaged insured property may be accomplished through:

- The traditional approach where the homeowner is left to source contractors;
- Insurers electing to reinstate the property by appointing contractors.

In both cases, the claim chain typically involves the parties: the insured homeowner, insurer, contractor/repairer, drying/cleaning specialist and loss adjuster and occasionally an independent surveyor acting on behalf of the insured but paid by the insurer.

Where the onus is on the homeowner to appoint a contractor to repair the damaged property, the homeowner will typically engage a public loss assessor (at the homeowner's expense). Loss assessors, deal with claims on behalf of policyholders on the basis of receiving a fixed percentage of whatever they recover for their client (CILA, 2002).

Insurers often tend to be more involved in the reinstatement process by engaging cleaning, drying and repair contractors. However, appointment of a loss adjuster to handle the claim tends to eclipse insurers' 'visibility' in claims. Loss adjusters are claims specialists engaged and paid by the insurance company to assess the amount of damage and the work needed to reinstate the property to its pre-incident condition. This includes checking policy cover, estimating costs, supervising the work ongoing, and making recommendations for payments to the insurance company (Crichton, 2002).

As with 'ordinary construction projects', flood damage restoration involves 'contractors' whose job is to restore the property. However, a previously flooded property has to be dried out by drying specialists before it can be repaired. Once the drying is done, a range of other specialist building trades is involved in the reinstatement.

Homeowners' Needs and expectations in Flood Damage Insurance Claims

The restoration of flood-damaged domestic properties involves 'projects' and clients (insured homeowners) that have significantly different characteristics from those of ordinary construction projects. Samwinga and Proverbs (2003) summarized the unique features of flood-damage reinstatement 'projects' as being:

- Recovery and restoration - returning the flood-damaged property to its pre-incident condition.
- Flood restoration works, by nature, usually involve processes such as cleaning, drying, 'deodorising', sanitation, etc., which are unique.
- The size, usage, contents, etc.
- They involve flood claims, which can be very complex to handle.
- The parties involved in flood reinstatement projects are typically the homeowner, insurer, contractor(s) (cleaning, drying, and repair), loss adjuster, and sometimes loss assessors, whereas 'ordinary construction projects' typically assemble a team consisting of the client, designer, consultants and contractors.
- The 'clients' (insured homeowners) undergo a potentially traumatic experience often resulting in anxiety during and after the flood event (Green *et al.*, 1983).
- Loss of symbolic objects or irreplaceable assets of sentimental value, underinsurance on buildings and no insurance on contents (resulting in financial loss), may exasperate the trauma experienced by homeowners.

As a result of limited literature on the needs of homeowners in flood damage repair works, Samwinga and Proverbs (2003) compiled a comprehensive list of potential needs of domestic property occupiers. Seven categories of homeowners' needs were identified for further

investigation, namely: as economy, utilitarian needs, relations and communication, health and safety, commitment and flexibility, and time.

Due to the importance of customers' needs, which form an integral part in customer satisfaction efforts, it is important that the insurers and other service providers identify homeowners' needs and provide a service aimed at meeting and/or exceeding those needs.

Satisfaction of homeowners with flood damage reinstatement services

When flooding damages insured properties, insurers and repairers are called upon to provide services to homeowners in order to return the dwellings back to a habitable state. Such services offered by insurers and repairers to homeowners have not been spared criticism (Watkins and Welsh Consumer Council, 1992; Warwickshire Trading Standards, 1998) for short-comings in areas such as promptness of claims processing and settlement; role, competence and impartiality of loss adjusters; communication; involvement of insurers in monitoring and supervising repairs; comprehensiveness of damage assessment; promptness of payments and general relations with the insured. These factors, among others, appear to influence homeowner's ultimate feelings of (dis)satisfaction with the level and quality of service provided by insurers and repairers, while further questioning the insurance industry's commitment to customer care and satisfaction.

TOWARDS AN APPROACH FOR MEASURING HOMEOWNERS' SATISFACTION IN FLOOD CLAIMS

Of all the widely used frameworks for satisfaction measurement, SERVQUAL (SERVice QUALity), seemed more suitable for the measurement of insured homeowners' satisfaction in domestic flood claims. SERVQUAL measures the difference between customers' expectations and their perceptions of the actual performance of a service provider.

Although originally developed to measure service quality, it has also been modified and used to evaluate customers' perceptions of services in various industries (Mont and Plepys, 2003), which demonstrates the flexibility of the methodology. SERVQUAL has been applied in the context of the airline industry (Bitner and Hubbert 1994); automobile insurance (Parasuraman *et al.*, 1994; Stafford *et al.*, 1998); computer manufacture (Parasuraman *et al.*, 1994); public sector services (Wisniewski, 2001); life insurance (Parasuraman *et al.*, 1994); retail (Parasuraman *et al.*, 1994); and construction professional services (Hoxley, 2000).

Considering its wide application, SERVQUAL is proposed as a framework to be used as a basis for developing a survey to evaluate homeowners' perceptions of service quality and satisfaction. However, due to the unique nature of domestic flood claims, the SERVQUAL scale will be modified to provide a more comprehensive, appropriate and contextual measure of satisfaction.

Table 2 shows a framework from the work of Stafford *et al.* (1998) in context of the auto casualty industry, which has several similarities with the domestic property insurance industry. This framework will be modified to account for special features of domestic flood claims as well as findings from in-depth interviews with stakeholders, currently being analysed.

Table 2 Modified SERVQUAL scale items (after Stafford et al 1998)

SERVQUAL DIMENSION	Indicates the survey respondent's opinion about the insurer with regard to...
Tangibles	<ul style="list-style-type: none"> • Modernness of offices (appropriate for insurance) • Visual appeal of offices (appropriate for insurance) • Neatness of employee appearance and the appeal of the employees' dress (appropriate for insurance) • Appropriateness of the office's appearance in relation to the type of services provided (appropriate for insurance)
Reliability	<ul style="list-style-type: none"> • Ability to fulfill promises in a timely manner (claims issues) • Sympathy offered by insurer when the customer has a problem (sympathy to claims/flood incident) • Dependability (can rely on employee) • Timeliness in providing services (damage assessment, claim processing, payments) • Accuracy of records (claim form, incident report)
Responsiveness	<ul style="list-style-type: none"> • Telling customers when services will be performed (claim, payments) • Promptness of service (quickness of payments) • Willingness of employees to help customers (deal with processing) • How busy the employees are, and how it affects their promptness in responding to customer requests (number of claims in process and how it affects claimants)
Assurance	<ul style="list-style-type: none"> • Trustworthiness of the insurer (trust of company) • How safe the customer feels in dealing with the insurer (safe feeling of customer) • Politeness of employees (courtesy in handling) • Does insurer provide support for employees so that they can perform their jobs well? (Are resources available for claim to be processed?)
Empathy	<ul style="list-style-type: none"> • The individual attention the insurer provides the customer (caring, empathetic nature regarding claim and flood incident) • The individual attention the employees provide the customer (issue regarding the specific claim) • Employee understanding of the customer's needs (understanding of flood impact on household) • Does the insurer have the customer's best interests at heart? (Does company care that a fair amount in a timely manner will be paid?) • Convenience of operating hours (convenient to individual schedules)

A questionnaire will be developed that includes the 22 expectation and perception items from the SERVQUAL scale (Parasuraman *et al.*, 1988). Respondents will then be expected to rate each item relating to their expectations and perceptions level on a likert scale. In addition, seven-point overall measures of service quality and feelings of customer satisfaction will be included in the modified SERVQUAL scale. One way Analysis of Variance will be used to determine if there are significant differences among the various pertinent demographic categories regarding the gap scores that measure difference between service quality expectations and perceptions.

Individual dimension scores will then be used as predictor variables in regression models to determine which of the five elements of SERVQUAL are significantly related to the overall measures of service quality and customer satisfaction.

CONCLUSIONS AND FUTURE WORK

At present there is little existing research that evaluates homeowners' perceptions and their levels of satisfaction with respect to the performance of their service providers. As part of a wider investigation, a review is presented of issues relating to satisfaction and service quality and how they are measured. A proposed approach is put forward for measuring satisfaction in domestic flood insurance claims. Some shortcomings in the services received by

homeowners, as identified in the literature, are also presented due to their relevance as potential factors that influence a homeowner's ultimate feelings of (dis)satisfaction. Knowledge of the determinants of insured homeowners' satisfaction in flood damage repair works would be beneficial to all stakeholders involved in the insurance supply chain and should lead to an improved service for homeowners.

The issues raised in this paper surrounding homeowners' satisfaction are part of a wider study towards the award of a PhD degree. The next phase of the study will involve an investigation of insured homeowners' needs and satisfaction determinants with a view to developing and validating a predictive model of key determinants of homeowners' satisfaction with respect to the repair of flood damaged domestic properties. This will be done within a modified framework of the SERVQUAL methodology.

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