Antecedents of Customer Loyalty: Reference to Insurance Companies in Addis Ababa

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ABSTRACT

The objective of this study was to analyze antecedents of customer loyalty in the insurance sector of Ethiopia. In order to achieve the objectives of the study descriptive research design was employed in which descriptive study could help to identify patterns or trends in a situation of influencing loyalty in the insurance sector. In order to elicit attitude from the target group, questionnaires were designed, and then the data obtained from target group respondents' were produced and discussed. Pearson correlation, χ^2, and regression analysis were used to examine the relationships between service quality, customer satisfaction, customer trust, switching cost and customer loyalty using SPSS 16.0 and Amos 5.0 software. The result of the study indicates that service quality perception, customer satisfaction, customer trust and switching cost have direct and positive relationship to customer loyalty. In this study, it was also found that customer satisfaction has a mediating effect on the relationships between service quality and customer loyalty link. Based on these, recommendations are forwarded for insurers in order to aware them to give focus on improving service, increasing customer satisfaction, developing policy holders trust on the company and building barriers of churning which could initiate customers for repeat purchase and influence them to retain in the existing company which entails attracting new policyholders for the company

Keywords: Customer, Customer satisfaction, Insurance, loyalty, Policy holders,

INTRODUCTION

Insurers need large number of policyholders for their survival and prosperity. An interested policyholder may hold several contracts with the same company, covering different risks. This means insurance agreements are written for every type of risk covered. A customer and insurer relationship is a very special type of relationship as it involves a long-term commitment. The globalization of competition, saturation of markets, and development of information technology have enhanced insurers' awareness and created a situation where long-term success can be achieved by building customer loyalty. Competition in the global insurance sector is becoming fierce due to the mushrooming of insurers and development of information technology which enhanced customer awareness. This has forced insurance companies to inclined more towards the building customer loyalty which becomes more and more useful as a way to deal with the increasing competition in the sector and the necessity to recruit new customers, and to retain them and to increase their loyalty which is believed by insurers increasing

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company profit. Roger (2011) puts reasons for the increment of profits from loyal customers as: In Ethiopia insurance industry, business is addressing customers in mass which leads competition on price based while competition is fierce and sales growth is flat. Oromia insurance company 2010/11 annual report indicates this unfair competition as, Ethiopian insurance industry is continued on premium undercutting competition which pushed premium rates extremely low regardless of customer service quality, customer training and education. Loyal customers purchase more than one policy from their insurers; they can play the role of their providers to attract new customers by word of mouth. Loyal customers are savvy customers so that they can contribute to company improvement.

From this premise one could conclude that building customer loyalty to the respective company is a means of the company's survival or/and growth. This issue demands to identify the influencing factors for customer loyalty towards their perspective companies and focusing to build customer loyalty. What we observe from the business environment is that price-based competition does not improve the situation, yet insurance penetration (1.2%) as well as its

contribution to GDP (0.2%) is very low when related to other countries of the world, but in Ethiopia there are good opportunities for insurance development: people have long history of informal insurance experience for risk reduction. Government deregulation policy initiates new entrants to the industry. Infrastructure improvements and the continuity of economic growth of the country are favorable.

Despite of favorable condition for insurance development, customer defections are high in the insurance sector. Interview with Nile insurance marketing director shows from 25,840 policyholders 3,997 (15%) did not renewal their policies in 2010/11. According to Ethiopian Insurance Corporation business development and risk management department director interview response, from the total of (general and life) 69,731 policies 17, 884(25.6%) policies were not renewed in 2011.This becomes serious problem of a sector.

Thus, this study attempts to examine the antecedents of customer loyalty in the insurance sector of Ethiopia and efforts are made to suggest solutions for problems observed.

REVIEW OF LITERATURES

Nowadays, customer loyalty has received much consideration and attention in the business environment. Johnson & Gustafsson, (2006) claimed that "Over the past two decades, many companies have moved sequentially from focusing on quality to focusing on customer satisfaction and then on loyalty as a panacea of the day. According to this argument companies should satisfy and retain their customers in order to survive or prosper in today's volatile competitive business environment. As most agree loyalty matters much for business.

Loyal customers have direct impact of company's profitability. When a company consistently delivers superior value and wins customer loyalty, market share and revenues go up, and the cost of acquiring and serving customers goes down (Reichheld, 2003). This means market share and revenues increase as a result of loyal customers who make repeat purchases and make referrals. The company's costs also decrease as company needs to spend to lure in new customers. Roger (2011) showed that even a small increase in customer retention rates could have a major impact on profitability. In addition to this Roger (2011) showed that it was much more cost effective for a company to retain their current customers than to acquire new ones. It was claimed that 5% increase in customer retention leads to an increase of profits by 25% to 95% (Nana, 2010). Companies recognize the importance of providing quality service in order to maintain high level of customer satisfaction and customer loyalty.

In spite of these, Bitner (1990) pointed out that customer satisfaction was an antecedent of service quality. However, Roger (2011) argued by raising questions to the response as: How do you expect customer satisfaction with void of service quality. Mei-Fang & Ling-Huei (2009) in their study of the moderating role of switching barriers on customer loyalty in the life insurance industry confirmed that service quality has a significant influence on customer satisfaction.

Nobody expects a long-term relationship with a partner that cannot be trusted. Morgan, & Hunt (1994) stated that trust exists only when one party has confidence in an exchange partner's reliability and integrity. They posit that trust was a major determinant of relationship commitment: brand trust leads to brand loyalty because trust creates exchange relationships that are highly valued. According to National Economic Research Associates (2003) switching costs refer to the buyer's perceived costs of switching from the existing provider to a new supplier. These include the cost of changing services in terms of time, monetary and psychological expenditure (Jackson, 1985)

RESEARCH METHODOLOGY

As the customer loyalty in insurance sectors was not satisfactory in the preliminary study, the focus was made to analyze (i) relationship between demographic factors and customer loyalty (ii) relationship between service quality and customer satisfaction (iii) relationship between customer satisfaction and customer loyalty (iv) relationship between service quality and customer loyalty (v) mediating effect of customer satisfaction on service quality and customer loyalty link (vi) relationship between customer trust and customer loyalty (vii) relationship between switching cost and customer loyalty

Source of data - **primary and Secondary:**
Secondary data was collected entirely from published sources and from literatures & web sites which have already been consumed by someone else or which have already been passed through the statistical process. Afresh information (primary) also collected from target group respondents via questionnaires which are illustrated below.

Questionnaire Design: Questionnaires were designed to elicit information from respondents for this study. The questionnaires to be used for this research are structured under six categories in order to measure attitudes of policyholders: Demographic, service quality, customer satisfaction, customer trust, switching cost and customer loyalty. The questions were designed in a manner so as to glean the maximum information from the respondents and taking a minimum of their time.

Study population: The population for this study was insurance company policyholders and currently getting service from these insurance companies. There are 15 insurance companies including the newly established one. Thus, sample of companies and respondents are taken from the population.

Sampling unit: Insurance business operates all over the country and it is overwhelming to conduct attitude survey of all policyholders in the country. Thus, the study of attitude survey focused on policyholders who get insurance service in Addis Ababa, capital city of Ethiopia.

Sampling: In this study four companies were sampled to conduct policyholders' attitude survey. Ethiopian Insurance Corporation, the only public owned company and also it is a market leader (42%) market share (Ethiopia insurance corporation annual directors' Board report 2010/11). Furthermore, in order to compare the level of customer loyalty between public & private companies, it was necessary to take Ethiopian Insurance Corporation as one sample.

Sampling technique: The aim of this study was to make inference about the whole insurance policyholders' attitude in Addis Ababa from the survey of samples that was to estimate policyholders' status on customer loyalty in insurance companies of Ethiopia. Therefore, probability sampling was appropriate for this study rather than non probability sampling. Consequently, for this study in which its respondents are heterogeneous stratified random sampling was used.

Sample size: The below mentioned formula was used for sample size calculation Nargundkar (2010). The sample size required for this

$n=(Zs/(0.05))^2$	**n** =sample
$n= (1.96*.85/(0.05))^2$ $n=1,110$	**Z** = z score 1.96 for a 95% confidence level
	s = standard deviation

attitudinal survey was 1,110 respondents. The internal consistency (reliability) of questionnaires measured through Cronbach's Alpha is found to be 0.939, greater than the threshold 0.70 (Table 1) This means 0.939 of the variance of the score can be considered as true score variance or internal reliability score. Therefore, as the values exceeded the threshold value of 0.7 we can conclude that questionnaires were in a high level of consistency.

The data which was collected for this study was analyzed and inferences were made using statistical tools of chi-square, correlation and multiple regression analysis. The confidence interval considered was 95% in which Null

Table 1: Reliability statistics of Items

Cronbach's Alpha	Number of items
0.939	46

hypotheses rejected and alternative hypotheses accepted when p-value was less than 0.05. Further Cramer's V was used to test the strength of association for Nominal and Ordinal variables where the value close to 0 was considered as no association and value close to 1 was considered as perfect association. The SPSS 16.0 software was employed for above mentioned analysis. Amos 5.0 was used for finding out relationships analysis between variables. Summary of statistical interpretation are presented in Tables and Figures, respectively.

RESULTS AND DISCUSSION

Relationships between demographic particulars and customer loyalty:

Positive attitudes towards loyalty were more in male than their female counterparts (Table 2). Besides this, more of the male respondents (8.9%) disfavor their insurance providers. This variation was supported by χ2 analysis result. The association between sex and customer loyalty was found to be ($\chi2 = 80.38$, df= 16, $p < 0.05$). This means sex & loyalty are related in the insurance sector (Table 2).

The analysis verifies the result was statistically significant that null hypothesis is rejected and the alternative hypothesis was accepted. Thus, we can conclude that at 95% confidence level sex and customer loyalty are associated significantly with each other. Similarly, previous studies have shown that female customers to exhibit higher levels of loyalty. Since female customers generally place a higher value on long-term relationships, they also tend to be more brand loyal than males. Of course, men and women clearly have very different drivers and motivations to be loyal to insurance companies. This calls for detail investigation.

However, Cramer's V value was 0.284 which means the strength of association between sex and customer loyalty was very weak, as compared the threshold (Table 2).

Among respondents, the married group perception score of (58.6%) are better in their level of loyalty i.e. in purchasing different policies, extending reputation of the company and in their commitment to stay in the company (Table 3). This response variation was supported by chi-square as, ($\chi2$ =1.53, df = 32, P< 0.05). So that we

can conclude that marital status and customer loyalty are related, there was dependency between them. There is no enough evidence to accept the null hypothesis, so the alternative hypothesis was accepted.

However, the reported Cramer's V value was 0.277 which indicates very weak association between marital status and customer loyalty. Similar association was reported in the behavioral study of young newly married couples looked at the life insurance purchasing (Singh &

Table 2: Relationships: Sex and customer loyalty

Sex	Do you recommend insurance products to others? Do you intend to purchase additional policies? Will you continue as a customer in the company?			$\chi2$	df	Sig.	Inference
	Low	Medium	High				
Female	66 (6.6%)	14 (1.4%)	220 (22%)	80.38	16	.000	Sig. < 0.05 so that Ho is rejected. Sex has direct association to customer loyalty
Male	89 (8.9%)	70 (7.0%)	541 (54.1%)				
Total	155 (15.5%)	84 (8.4%)	761 (76.1%)				
Measure of strength of association: Cramer's V value: 0.284						.000	Weak association

Table 3: Relationships: Marital Status and Customer Loyalty

| Marital Status	Do you recommend insurance products to others? Do you intend to purchase additional policies? Will you continue as a customer in the company?			$\chi2$	df	Sig.	Inference
	Low	Medium	High				
Single	18 (1.8%)	1 (0.1%)	10 (1%)	1.53	32	.000	Sig. <0.05 so that Ho is rejected. Gender has direct association to customer loyalty
Married	151 (15.1%)	70 (7%)	586 (58.6%)				
Others	21 (2.1%)	13 (1.3%)	130 (13%)				
Measure of strength of association: Cramer's V value: 0.277						.000	Weak association

Table 4: Relationships: Education level and customer loyalty

Education level	Do you recommend insurance products to others? Do you intend to purchase additional policies? Will you continue as a customer in the company?			$\chi2$	df	Sig	Inference
	Low	Medium	High				
High school or less	118 (11.8%)	26 (2.6%)	315 (31.5%)	1.455	32	.000	Sig. < 0.05 so that the relationship between education level and loyalty is significant
Undergraduate	46 (4.6%)	48 (4.8%)	269 (26.9%)				
Post graduate or above	26 (2.6%)	10 (1%)	142 (14.2%)				
Total	459 (45.9%)	84 (8.4%)	178 (17.8%)				
Measure of strength of association: Cramer's V value: 0.270						.000	Weak association

Sirdeshmukh, 2000) and also it was suggested that the wife and the insurance agent are playing an influential role in the type of insurance purchased by young married households.

On the other hand, the present study was reported that as level of education increased the loyalty to insurance was decreased (Table 4). More loyalty was noted with the people with high school or less (31.5%) however, Undergraduate and post-graduate education level was 26.9%, and 14.2 %, respectively. The relationship between education level and loyalty was statistically significant ($\chi 2$= 1.45, df 32, p <0.05). This indicates negative association between education levels and loyalty. However, the reported Cramer's V value was 0.270 which indicates very weak association between education level and customer loyalty. Households with a more educated wife were found to have a lower likelihood of purchasing term

Relationships analysis between variables
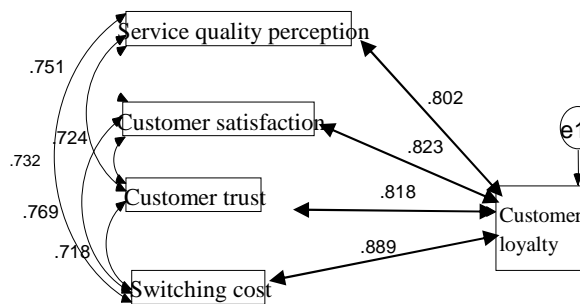
Figure 1: Correlation among Variables

The estimated correlation indicates that there was a strong and positive correlation among variables (Figure 1). The variables move in the same direction together. This means higher scores on one variable tend to be paired with higher scores on the other. The results showed that a strong relationship exists among explanatory and dependent variables (Figure 1). As service quality increased the customer loyalty was increased (r = 0.802, p < 0.05). Similarly, customer satisfaction (r = 0.823, p < 0.05), consumer trust (r = 0.818, p < 0.05) and switching cost (r = 0.889, p < 0.05) increased the customer loyalty increased, respectively. This indicates strong relationship in above mentioned variables.

Impact analysis: Determinant Factors on Customer loyalty

The results of coefficient of the regression line provide information on each independent variable to predict customer loyalty (Table 5). From Unstandardized Coefficients column mentioned in Table 5, the following raw regression equation was formed.

$$Y= -0.733+0.191X_1+0.210X_2+0.292X_3+0.531X_4$$

This equation was derived from

$$Y= a+b_1X_1+b_2X_2+b_3X_3+b_4X_4$$

$$Y= -0.733+0.191X_1+0.210X_2+0.292X_3+0.531X_4.$$

where Y = Customer loyalty; b_1 - b_4 = Regression coefficient; X_1 = Service quality; X_2 = Customer satisfaction; X_3 = Customer trust; X_4 = Switching cost; a = intercept.

The influence of service quality (Regression weight = 0.191, p < 0.05), customer satisfaction (Regression weight = 0.210, p < 0.05), Customer trust (Regression weight = 0.292, p < 0.05) and Switching cost influence loyalty (Regression weight = 0.531, p < 0.05) on customer loyalty was statistically significant (Table 5). This indicates that the customer preference for insurance policy depends on better service quality, customer satisfaction, Customer trust and switching protection provided by service providers.

Similarly, Yen and Gwinner, (2003) found that satisfaction has a positive and significant effect on customer loyalty. Lin and Wang, (2006) also argue that satisfaction has a significant and positive impact on loyalty. Both customer trust in the employees and customer trust in the company are

Table 5: The coefficient Table (rate of change)

Model		Unstandardized Coefficients		Standardized Coefficients	t	Sig.
		B	**Std. Error**	**Beta**		
(Constant)		-.733	.060		-12.119	.000
Loyalty ⟵	SQ perception	.191	.029	.129	6.56	.000
Loyalty ⟵	Satisfaction	.210	.024	.173	8.68	.000
Loyalty ⟵	Trust	.292	.022	.249	13.51	.000
Loyalty ⟵	Switching cost	.531	.021	.482	25.35	.000

SQ – Service quality;

positively related to customer loyalty (Sirdeshmukh et al., 2002). Mei-Fang Chen & Liang-Hung Mau (2009) and Kennedy et al., (2001) showed that customer trust in the life insurance company makes a positive contribution to customer loyalty.

Mediation analysis
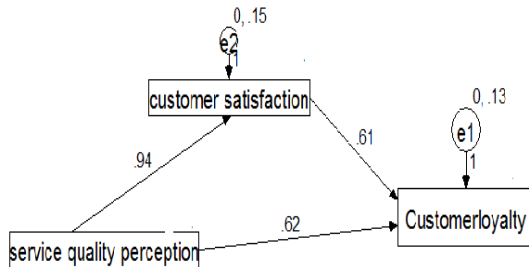
Figure 2: Direct and mediating effects of service quality on customer loyalty

The estimated correlation indicates that there was a direct and mediating effect of service quality on customer loyalty (Figure 2). As service quality increased the customer satisfaction was increased (r = 0.940) in turn the customer loyalty was increased (r=0.610). In addition to this, increased service quality directly increased the customer loyalty (r = 0.620). The results of the test revealed service quality has a direct, positive effect on customer satisfaction, and also customer satisfaction affects customer loyalty. Service quality affects customer loyalty directly and indirectly. In fact, Jones and Sasser (1995) reported that an increase in customer satisfaction produces a stronger effect on loyalty.

CONCLUSIONS AND SUGGESTIONS

From the present study, it can be concluded that the respondents' demographic characteristics analysis indicates customers have different needs and expectations that need a deep understanding of individual customer needs. Hence insurers have to give emphasis to discern their current customer needs and expectation and make efforts to meet their expectations. It was also reported that service quality, customer satisfaction, customer trust and switching cost play a vital role in influencing customers towards loyalty in the insurance sector of Ethiopia. Hence, insurers need to provide special attention to increase service quality, customer satisfaction and customer trust for customers' retention in their present insurance providers.

From the mediation analysis it can be concluded that service quality is an important antecedent of customer satisfaction and customer loyalty. Hence,

insurers should focus on service quality for which service quality is an important antecedent. The strong service quality leads to the satisfaction of customers and towards highest loyalty. It is important for the insurers to focus on service quality dimensions and make efforts to create satisfaction and among customers. Insurers need to develop a systematic assessment program to monitor service quality, and customer satisfaction overtime. Company employees should be kept informed of the results and be encouraged to take part in figuring out an effective resolution strategy.

In addition to this, the finding showed a high level of service quality, customer satisfaction and customer trust and barriers for switching could initiate customers for repeat purchase and influence customers to retain in the existing company which entails attracting new policyholders for the company.

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