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A Study on the Components of Service Quality in Insurance and Their Impact on Customer Loyalty:

The Case of Iran Khodro Insurance Service Company

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Abstract

Quality of services has been recognized as a strategy towards performing organization's aims and attracting customers. Studies in this regard show that quality of services improves the organization's competition through influencing customers' satisfaction and their perceived value by them and will result in customers' loyalty.

The purpose of this research is to study the effect of quality of services on customer's satisfaction and loyalty. In this research, we try to test the relationship between quality of services and the dependent variables, i.e. satisfaction, perceived value, and loyalty. In this study, the statistical population included all real customers of Iran Khodro Insurance Service Company in Esfahan, Tehran, Mashhad provinces. The data was obtained by means of questionnaire. Descriptive statistics were employed to study the characteristics of the population. Kolmogoroff-smirnoff test is applied to evaluate the normality of the statistical population distribution. Correlation test, Structural equations via LISREL software was applied to test research hypotheses and existence of correlation among research variables. Amounts of goodness of fit indices in the studied model (GFI= 0.94, RMSEA= 0.002) show suitability of the model.

We tested the hypothesis of positive effect of independent variable of service quality on dependent variables of customer satisfaction and perceived value and could find the confidence level of %95 for the hypotheses of positive relationship. We also could show customer satisfaction and perceived value have positive effect on customer loyalty. We also could show the positive effect of loyalty on the profit of insurer and consequently its effect on decreasing premium in a competitive market in long term.

Based on the research findings, the effect of quality on customer satisfaction and loyalty is very considerable. Since empathy and assurance had the lowest degree for Iran Khodro Service Insurance Company, the company should increase the level of quality by stimulating empathy and assurance through training the behavioral and communicational skills of employees and increasing the knowledge of them to create more assurance.

Keywords: Service Quality, Customer Satisfaction, Customer Loyalty, Iran Khodro Insurance Service Company and Perceived Value.

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CHAPTER I: INTRODUCTION

The first chapter in this thesis introduces the background of the selected area. This will be followed by Research Purpose, Relevance and importance of the subject, Theoretical foundation(s) of thesis, Research hypotheses and research methodology that will help reader to understand the insight of the research area.

Because of the increasing role of service organizations in different economic arenas and importance of quality subject in competitive arenas, quality of services has been recognized as one of the strategic levers and key axes in the competition scene. Therefore, each service organization should first identify the needs and expectations of its customers in order to evaluate and improve quality of services. Then it should study satisfaction level of customers from its services and attempts in order to improve it.

On the other hand, one of the most important service organizations that play a significant and determinant role in economic development of countries is insurance industry. So we could certainly say that country's economic development has a direct relation with development of the insurance industry.

In this research the purpose is to determine the amount of effect of service quality with regard to five dimensions on customer satisfaction and loyalty in Iran Khodro Insurance Service Company.

Definitions of the key terms, purposes of research, importance of research, hypotheses and methodology are discussed in this chapter.

1.1 Terms of references

In this section we define customer satisfaction, customer loyalty, perceived value and service quality.

1.1.1 Customer satisfaction

Customer satisfaction is defined as "a judgment that a product or service feature, or the product or service itself, provided (or is providing) a pleasurable level of consumption-related fulfillment, including levels of under- or over fulfillment"(Oliver, 1997, p.13).

In other words, customer satisfaction is defined as the customer's overall feeling, which is generated from a process of evaluating prior purchasing experiences in the insurance industry, and is measured by four items from the customer satisfaction part of the American Customer Satisfaction Index Scale developed by the university of Michigan business school, American Society for Quality, and CFI Group in 1994(American society for Quality, 2001).

1.1.2 Customer loyalty

Customer loyalty is defined as "a deeply held commitment to rebuy or repatronize a preferred product or service consistently in the future, despite situational influences and marketing efforts having the potential to cause switching behavior "(Oliver, 1997, p.392).

In other words, customer loyalty refers to customers' favorable behavioral intentions to insurance industry. Customer loyalty is measured by three items of the customer loyalty scale developed by Parasuraman et al. (2005), which is a modification of a prior measure.

1.1.3 Perceived value

Perceived value is defined as "the perceived level of product quality relative to the price paid" (Fornell, Johnson, Cha, & Bryant, 1996, p.9).

In the other words, perceived value refers to customers' perceived level of service quality relative to the price paid for purchasing products in the insurance industry. Five items of the Perceived Value Scale developed by parasuraman et al. (2005) are used to measure perceived value.

1.1.4 Service quality

Traditionally, service quality has been conceptualized as the difference between customer expectations regarding a service to be received and perceptions of the service being received (Grönroos, 2001; Parasuraman, Zeithaml, &Berry, 1988).

In some earlier studies, service quality has been referred to as the extent to which a service meets customers' needs or expectations (Lewis & Mitchell, 1990; Dotchin & Oakland, 1994). It is also conceptualized as the consumer's overall impression of the relative inferiority or superiority of the services (Zeithaml, Berry, & Parasuraman, 1990). Sixteen items of the service quality Scale developed by Zeithaml, Berry, and Parasuraman (2005) are used to measure service quality.

Parasuraman et al. (1988) identified five dimensions of service quality (tangibles, empathy, assurance, reliability, and responsiveness) that link specific service characteristics to consumer expectations.

(a) Tangibles: physical facilities, equipment and appearance of personnel;

(b) Empathy: caring, individualized attention;

(c) Assurance: knowledge and courtesy of employees and their ability to convey trust and confidence;

(d) Reliability: ability to perform the promised service dependably and accurately; and

(e) Responsiveness: willingness to help customers and provide prompt service.

The five dimensions of service quality proposed by Parasuraman et al. (1988) have employed for this study.

1.2 Research Purpose

The purposes of this research are:

1- To recognize the factors effecting on the quality of insurance services in Iran Khodro Insurance Service Company.

2- To Study the effect of services' quality on customers' satisfaction, perceived value and also their loyalty and discussing about its effect on premium.

1.3 Relevance and importance of the subject

The customer is one of the vital "assets" for the business. Businesses that lack this important asset may face the difficulty that operational income is less than operational cost; businesses losing customers may confront the problem of a profit decline. Several studies have shown that improving service quality and customer satisfaction result in better financial performance for businesses (Babakus, Bienstock, & VanScotter, 2004; Fornell, 1992; Ittner& Larcker, 1998; Nelson, Rust, Zahorik, Rose, Batalden, &Siemanski, 1992).

In the past few decades, more and more scholars and managers have observed that service quality is as important as product quality in retaining customer. Several studies indicate that perceptions of high service quality and high service satisfaction result in a high level of purchase intentions (Boulding, Kalra, Staelin & Zeithaml, Berry &Parasuraman, 1996).When service quality evaluations are high, customer behavioral intentions are favorable to the company.

Unlike product quality, service quality cannot be detected by standards such as usage life or rate of defect. Service quality is more difficult to measure than product quality because of certain unique characteristics of services. Services are intangible, perishable, variable, and immediately produced and consumed (Parasuraman, Zeithaml, &Berry, 1988; Rosen, Karwan, &Scribner, 2003; Schiffman & Kanuk, 2000; Stamatis, 1996). Services are usually performance, concepts, or ideas, which are difficult to see or touch, so they cannot be stored or used as saved inventory. Customers are also simultaneously involved with the production of services that they receive.

Hence, creating loyalty and attracting customer's satisfaction in order to absorb and keep customers and obtain income are considered as important aspects in modern marketing.

Previous studies, notably those of Wells & Stafford (1995), the Quality Insurance Congress (QIC) and the Risk and Insurance Management Society (RIMS) (Friedman, 2001a, 2001b), and the Chartered Property Casualty Underwriters (CPCU) longitudinal studies (Cooper & Frank, 2001) widespread customer dissatisfaction in the insurance industry across the world has been confirmed which is resulted from weak service delivery and designing. Not paying attention to customers' insurance needs and inferior quality of services justify this issue to a large extent.

American Customer Satisfaction Index shows that average amount of customer satisfaction has been decreased by 2.5% for life insurance and 6.1% for personal property insurance respectively between 1994 and 2002.

In the past, insurance industry has avoided pressures mainly because insurance is a very complex product that just some individuals could understand it. Probably this is the reason why majority of insurance consumers were quite 'blissfully ignorant' about insurance. The situation, however, has changed during recent years and insurance industry has become the target of consumer's pressures. The change in attitude towards insurance industry can be attributed to several developments. In the first place, insurance consumers are now more educated and knowledgeable. According to the International Consumer Movement, consumers have eight basic rights including: right to satisfaction; right to information; right to choose; right to basic goods and services; right to be heard; right to redress; right to gain education; and right to a safe and clean environment. Problem of insolvent insurers and unfair trade practices are other factors that affect the change in attitude.

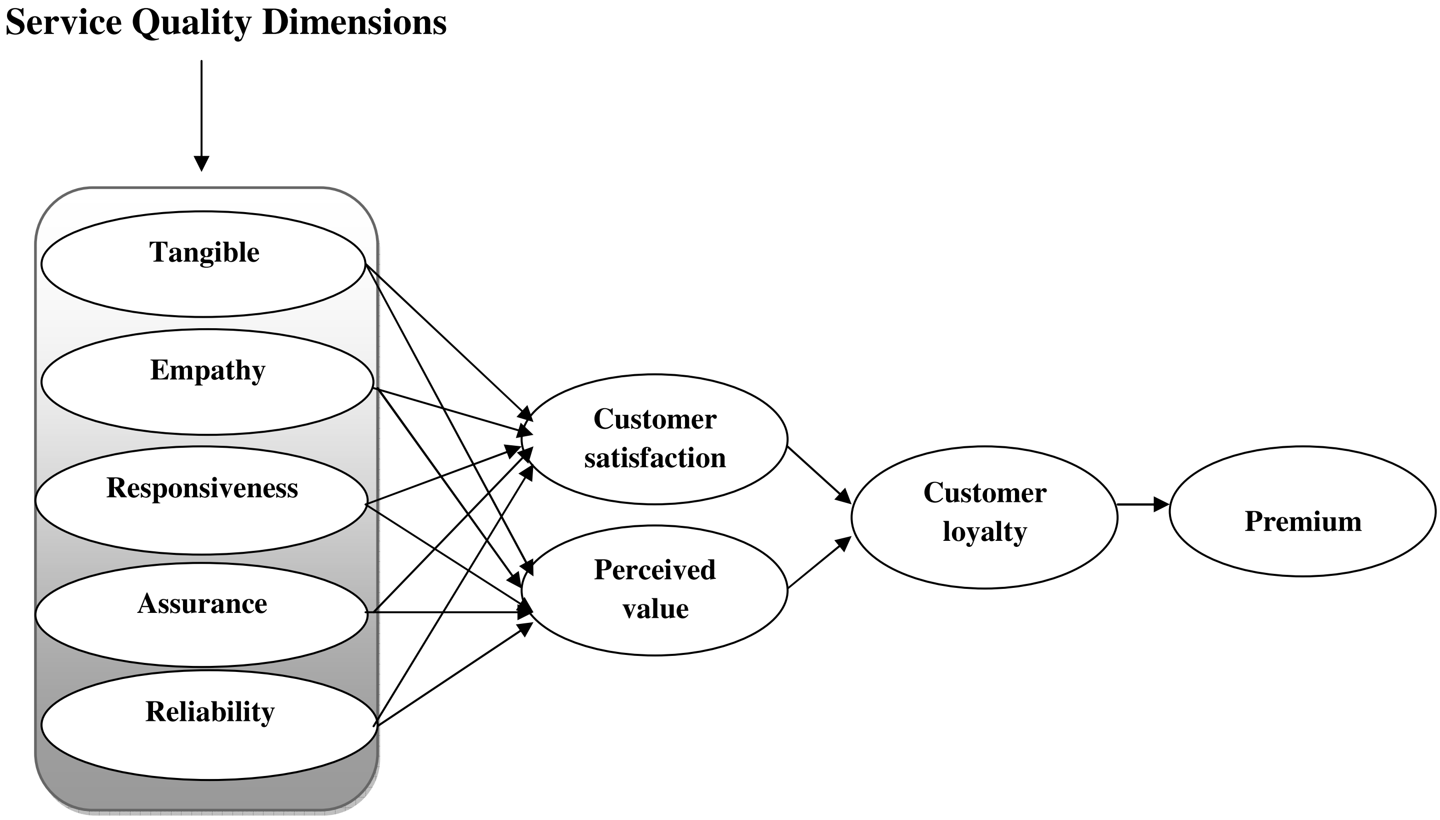
Insurance service industry is one of service industries in Iran. At present, insurance companies in Iran either governmental or private are among the servicing companies whose success in competitive arena depends on satisfaction of customers from services. Customer satisfaction depends to a large extent on quality of services. Competitiveness of the quality of services is one of the factors effecting on the success of such companies.

1.4 Theoretical Foundation(s) of the Thesis

The following model is based on the discussion and review of theoretical and empirical literature of the study.

This model shows the relationship between various aspects of quality of services, satisfaction, perceived value by customers and their loyalty to the corporation and then its relationship with premium.

Figure 1.1: The assumed model about the relationship between service quality, customer satisfaction, perceived value, loyalty and premium in this study


Service Quality Dimensions
Tangible
Empathy
Responsiveness
Assurance
Reliability
Customer satisfaction
Perceived value
Customer loyalty
Premium

1.5 Research hypothesis

This research aims to examine the following hypotheses in Iran Khodro Insurance Service Company:

Hypothesis 1: Service quality of Iran Khodro Insurance Service Company has significant relationship with customer satisfaction.

Hypothesis 2: Service quality of Iran Khodro Insurance Service Company has significant relationship with customers’ perceived value.

Hypothesis 3: Customers’ perceived value in Iran Khodro Insurance Service Company significant relationship with their loyalty.

Hypothesis 4: Customers’ satisfaction in Iran Khodro Insurance Service Company has significant relationship with their loyalty.

Hypothesis 5: Customers’ loyalty in Iran Khodro Insurance Service Company has significant relationship with premium that leads to reduction of premium.

1.6 Research Methodology

We obtain data by the confirmed questionnaire along with consideration of proved validity and reliability. The statistical population of this research includes all real customers of Iran Khodro Insurance Service Company in Tehran, Esfahan, Mashhad provinces. One of the characteristics of this population is that their insurance record is more than one year.

In order to analyze the extracted data, various analytical techniques of descriptive and inferential statistics will be used. Various types of frequency diagrams and indices like average, variance and standard deviation will be calculated. Correlation test, Structural equations' technique and path analysis method are used to test hypotheses and to examine model. In this respect, we have used SPSS and LISREL software to perform calculations.

Other parts of our research are organized as follows: Chapter 2 gives the literature on service quality, customer satisfaction, perceived value, customer loyalty and categorizes the studies on the topic. In Chapter 3 description of data and definition of variables will be illustrated, and then modeling procedure that has been followed to conduct this thesis is outlined. In chapter 4 the required data will be introduced and empirical analysis will be presented. Finally in Chapter 5 conclusion and recommendations for further researches are given.