

Customer Satisfaction with Service Delivery in the Life Insurance Industry: An Empirical Study

(Kepuasan Pelanggan terhadap Penyediaan Perkhidmatan dalam Industri Insurans Hayat:
Satu Kajian Empirikal)

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ABSTRACT

Consumers purchase life insurance for financial security during times of hardship. The present research examines the effects of service quality on customer satisfaction with service delivery in the life insurance industry. A quantitative research method is used to achieve the research objective. One hundred completed and usable self-administered surveys were received from respondents located in the Federal Territory of Labuan, Malaysia that have had a life insurance policy with an insurance company in Malaysia. The empirical results of the multiple regression analysis divulge that assurance, tangibility and empathy have a positive and significant relationship with customer satisfaction with service delivery in the life insurance industry. Customers are satisfied with the way the services are delivered. High levels of skill and experience among employees of a life insurance company and the dedication of agents provide customer confidence. Customer satisfaction is strengthened when agents possess outstanding communication skills and the customer is served in a pleasant atmosphere endowed with appealing physical facilities. As a result, customers are given individualized attention because the staffs understand the specific needs of their customers. Suggestions for future research are also proposed.

Keywords: Customer satisfaction; service delivery; life insurance industry

ABSTRAK

Pengguna membeli insurans hayat untuk persiapan kewangan di masa kesusahan. Kajian ini bertujuan untuk mengkaji kesan kualiti perkhidmatan ke atas kepuasan pelanggan terhadap penyampaian perkhidmatan dalam industri insurans hayat. Satu penyelidikan kuantitatif telah dijalankan untuk mencapai objektif kajian. Seratus kaji selidik yang lengkap telah diterima daripada orang awam di Wilayah Persekutuan Labuan, Malaysia yang telah mempunyai polisi insurans hayat dengan mana-mana syarikat insurans di Malaysia. Keputusan empirikal melalui analisis regresi berganda mendedahkan bahawa jaminan, tangibiliti, dan empati mempunyai hubungan yang positif dan signifikan terhadap kepuasan pelanggan terhadap penyampaian perkhidmatan dalam industri insurans hayat. Pelanggan berpuas hati dengan cara perkhidmatan disampaikan. Kakitangan syarikat insurans hayat yang sangat mahir dan berpengalaman Berjaya memberikan keyakinan kepada pelanggan. Ini diperkukuhkan lagi apabila mereka mempunyai kemahiran komunikasi yang cemerlang dan berkhidmat kepada pelanggan dalam suasana yang menyenangkan dan menggunakan kemudahan fizikal yang menarik. Malah, pelanggan diberi perhatian secara individu kerana kakitangan syarikat insurans hayat memahami keperluan khusus pelanggan mereka. Haluan untuk penyelidikan masa depan turut dicadangkan.

Kata kunci: Kepuasan pelanggan; penyediaan perkhidmatan; industri insurans nyawa

INTRODUCTION

The list of life and general insurance providers in Malaysia includes American International Assurance Bhd, Etiqa Insurance Berhad; ING Insurance Berhad; MCIS Zurich Insurance Berhad; Prudential Assurance Malaysia Berhad; and Zurich Insurance Malaysia Berhad (Bank Negara Malaysia 2013). Insurance companies in Malaysia received a total of USD9.307 billion of life insurance premium and USD4.965 billion of non-life insurance premium in 2011. These figures are less compared to the neighboring country of Singapore where there was a total of USD11.275 billion of life insurance premium and USD8.188 billion of non-life insurance premium in 2011 (Clark 2013). The statistics reveal that the life insurance

sector provides equivalent product and service offerings in all markets, but life insurance companies only differ based upon the quality of service; that different markets are distinguishable based upon the quality of service rendered to customers. Sherden (1987) concludes that high quality service is uncommon in the life insurance industry, but is increasingly necessary for customers with complex financial planning needs.

Customers' awareness of the importance of life insurance is one of the main factors in enabling the insurance agency to gain and maintain their customers. Since uncertainties are not controllable, individuals think of ways to reduce the impact of losses, destruction of property and death via insurance protection. Companies offering life insurance products and services spend a

considerable amount of their time, energy and resources attempting to attract new clients. Even though it is important for insurance companies to gain new clients and expand into new markets, their main goals should be to keep the existing customers and enhance customer relationships. The effort required to keep an existing customer is less than that required to gain a new one (Weinstein 2002). Consumer attitudes towards obtaining insurance are significantly affected by perceived service quality (Arora & Stoner 1996).

A number of studies have been conducted in the area of service quality in various industries in developed countries. Inconsistent perceptions and expectations of the SERVQUAL instrument scores exist in cross-cultural studies (Ladhari 2009; Zhao et al. 2002) because customers from different cultures perceive service quality differently (Furrer et al. 2000). For instance, customers in the UK and USA have different reactions to poor service (Voss et al. 2004). However, a scarcity of critical investigation of service quality using the dimensionality of SERVQUAL in the life insurance business exists, particularly in the case of developing countries such as Malaysia.

However, no study has yet been conducted to assess the life insurance sector in the Malaysian context. Moreover, life insurance is often overlooked by the consumer and it is important that insurance agents realize the importance of their work through quality service delivery. Hence, the present study critically examines the effects of service quality on customer satisfaction with service delivery in the life insurance industry. By keeping in view the increasing market size and intense competition, the present study can assist the life insurance industry to better understand the expectations of their customers. The following section reviews the literature on service quality and its relationship with customer satisfaction. A description of the research methodology and empirical findings of the present study are then highlighted. The final section discusses implications and suggestions for future research.

LITERATURE REVIEW

Service quality is a factor used to measure how well services actually performed compared to customer expectations (Olsen et al. 1978). Excellent service quality will result in a high level of customer satisfaction (Naeem & Saif 2009). Customers' perception of service delivery and quality can have an impact on the long term profits of an organization (Kee et al. 2009). The financial success or failure of the life insurance industry depends upon consumer choices; the acceptance of the various competitive offerings; and the quality of service provided (Siddiqui et al. 2010). However, it is very rare to gain customers who increasingly demand high service quality from life insurance providers (Sherden 1987), even though the life insurance service providers' attributes are positively related to customers'

perceived relationship quality (Yen et al. 2012). Customer satisfaction is found to be an important tool to create and maintain loyal customers (Aurand et al. 2004). Loyal customers contribute more to high and repeated purchases (Hui & Law 2003). Gera (2011) examines the effect of perceived service quality on behavioral outcomes of life insurance customers in India and finds that customer satisfaction and value perceptions are antecedents of future intentions of customers. The next section discusses the principal variables used by customers to evaluate service quality: assurance, reliability, tangibles, empathy and responsiveness (Berry et al. 1988).

ASSURANCE

Assurance relates to the ability and skills of an employee to gain the trust of customers, which is required to maintain good customer contact through the creation and provision of good quality service (Bitner et al. 1990); and to build trust and customer satisfaction (Ahearne et al. 2007). Assurance of the straight-through administrative processing and transaction solutions for employers, intermediaries and retail customers enhances the service delivery of life insurance providers; and increases customer satisfaction since benefits are shared between different stakeholders, which contribute to positive growth in the social insurance market (Clark 2013). Mengi (2009) finds that assurance is important in the consumers' utilization of the service. Therefore, it is crucial for service providers to provide quality assurance (Jones 1986). Accordingly, the present study hypothesizes that:

H₁ Assurance has a significant relationship with customer satisfaction with service delivery in the life insurance industry.

RELIABILITY

Reliability refers to how the company is performing and fulfilling its promised service, quality and accuracy in light of the agreements between the company and the customer. This element focuses on the outcome of the service (Berry et al. 1988) where companies can fulfill their requirements in meeting customer satisfaction. Better relationship quality is developed between customers and companies when life insurance providers offer better service quality through effective communication by knowledgeable employees and dedicated agents with a high level of expertise (Yu & Tung 2013). Reliable services rendered, boost policy holders' confidence, increase loyalty, and continuing interaction and willingness to make recommendations to others. Moreover, Arasli et al. (2005b) find that reliability influences customer satisfaction. Hence, the present study posits that:

H₂ Reliability has a significant relationship with customer satisfaction with service delivery in the life insurance industry.

TANGIBLES

Tangibles are allied to the appearance of the physical surroundings and facilities, equipment, personnel and the manner of communication. In other words, the tangible variable is about creating first impressions of the surroundings, facilities and environment. Since the services are intangible, it is difficult for customers to understand them (Baker & Legg 1996). That is why customers make assumptions of service quality by evaluating the tangible facilities, such as the building and physical layout of the company offices (Bitner 1990). Convenience and accessibility are also treated as part of the tangible variable of service quality. A convenient location means customers can easily do regular business with the company (Levesque & McDougall 1996). The satisfaction of policy holders is strengthened when life insurers improve the interaction quality and physical environment by building comfortable service centers; providing a good atmosphere within the overall surroundings; and offering additional services (Leuthesser 1997; Shamdasani & Balakrishnan 2000; Yu & Tung 2013). Tangibles are important factors that influence customer satisfaction (Kumar et al. 2010; Lai 2004). Thus, it is expected that:

H₃ Tangibles have a significant relationship with customer satisfaction with service delivery in the life insurance industry.

EMPATHY

Empathy refers to how a company cares and provides individualized attention to their customers in order to make the customers feel valued and special. If the customers feel they receive individualized and quality attention, it is likely that they will return to the company and do business there again. Extant research finds that content, welcome and alignment are the main factors of service quality in the life insurance industry. However, service quality is not found to influence customer satisfaction significantly. Thus, a satisfied life insurance customer is not necessarily a loyal customer (Prakash et al. 2011). Service employees are expected to be more empathetic towards customers (Donthu & Yoo 1998). The key to success and survival appears to be a traditional agent and client relationship and the agent's ability to expand and make the most of the relationship (Grönroos 2000; Reagan 2001). Ahmed et al. (2010) find that empathy and customer satisfaction

are significantly related. Therefore, the present study hypothesizes that:

H₄ Empathy has a significant relationship with customer satisfaction with service delivery in the life insurance industry.

RESPONSIVENESS

Responsiveness relates to the willingness of a company to help its customers by providing them with good, quality and fast service. This is also a very important dimension, because customers feel more valued if they get the best possible quality of service. Customers should not be approached or served by weaker service employees or agents (Furrer et al. 2000). Life insurance providers must listen to and take action on all customers' complaints; make improvements, where necessary, through appropriate communication channels; and establish and maintain long-term relationships with policy holders in order to increase customer loyalty and elevate company profitability (Yu & Tung 2013). Mengi (2009) finds that responsiveness is an important factor for customer satisfaction. Hence, the present study posits that:

H₅ Responsiveness has a significant relationship with customer satisfaction with service delivery in the life insurance industry.

The proposed research framework is illustrated in Figure 1.

METHODOLOGY

After data screening, one hundred completed and usable responses were collected from members of the public that have had a life insurance policy with any of the insurance companies in Malaysia. They were located in Federal Territory of Labuan, Malaysia. Initially, 150 self-administered surveys were sent out with a valid response rate of 67%. The sample size is reasonable as Roscoe (1975) states that a sample size between 30 and 500 samples is considered satisfactory. The data collection was conducted over a period of one month (from 1 May 2012 to 31 May 2012) utilizing a convenient sampling technique. The questionnaires are divided into three parts: demographic background, experience with the life insurance industry, and satisfaction with service delivery

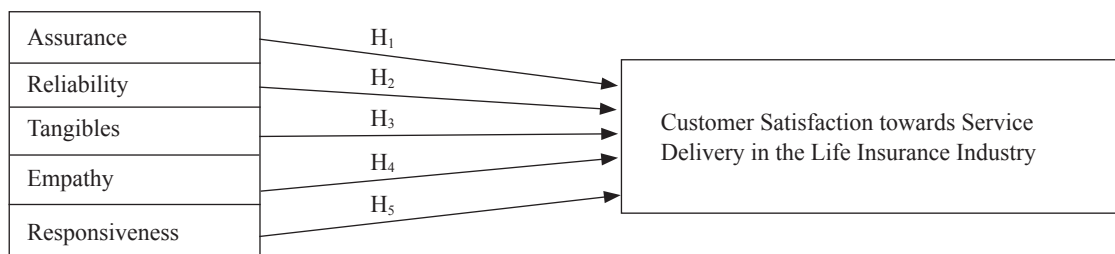


FIGURE 1. Theoretical framework

in the life insurance industry. The questionnaire items, as presented in Appendix 1, are adapted from Parasuraman et al. (1988) with some modifications to suit the area of investigation and are measured on a five-point Likert scale, ranging from 1 (strongly disagree) to 5 (strongly agree). The data collected are then analyzed via multiple regression analysis to examine the relationship between the independent variables and the dependent variables.

DATA ANALYSIS

Table 1 presents the demographic profile of respondents. Out of one hundred respondents, 41 percent were female and 59 percent were male. Close to 50 percent of the respondents were over than 31 years of age. About 39 percent of respondents had a monthly income between RM3001 and RM7000.

TABLE 1. Demographic profile of the respondents

Variable		Frequency	Percentage
Gender	Male	41	41.0
	Female	59	59.0
Age (years old)	<20	7	7.0
	21-30	45	45.0
	31-40	39	39.0
	>41	9	9.0
	Monthly income (RM)	<1000	9
	1001-3000	49	49.0
	3001-5000	30	30.0
	5001-7000	9	9.0
	>7001	3	3.0

EXPERIENCE WITH THE LIFE INSURANCE INDUSTRY

Almost half of the respondents (47%) have a life insurance policy with AIA, this could be because AIA is the major life insurance provider in the Federal Territory of Labuan, Malaysia (see Table 2). Thirteen percent of the respondents have an insurance policy with Etiqa Insurance and Takaful Berhad; 14 percent signed insurance policies with Great Eastern Life Assurance (Malaysia) Berhad; and 8 percent with Takaful Malaysia Berhad. More than fifty percent hold a whole life insurance policy, while one-quarter of respondents hold an investment-linked life insurance policy.

RELIABILITY ANALYSIS

The internal consistency of the constructs is measured using Cronbach's coefficient alpha. Table 3 illustrates that the lowest value of Cronbach's Alpha was 0.764 for consumer purchasing decision factor, exceeding the criterion of 0.70 (Hair et al. 2010). Thus, the survey instrument reliably measures all constructs consistently and is free from random error.

TABLE 2. Experience with life insurance industry

	Frequency	Percentage
Which insurance company are you insured with?		
AIA Bhd	47	47.0
Etiqa Insurance & Takaful Berhad	13	13.0
Takaful Malaysia Berhad	8	8.0
Great Eastern Life Assurance (Malaysia) Berhad	14	14.0
Others	18	18.0
Type of insurance policy coverage?		
Whole Life Insurance	65	65.0
Endowment Insurance	7	7.0
Investment link	27	27.0
Others	1	1.0

Note: The term "Berhad" attached to the company's name is the Malay term for "Limited" to indicate the type of liability assumed by the company or corporation.

TABLE 3. Reliability analysis

Variable	No. of Items	Cronbach's alpha
Assurance	5	0.813
Reliability	6	0.857
Tangibility	4	0.764
Empathy	3	0.828
Responsiveness	4	0.846
Customer Satisfaction	3	0.925

CORRELATION ANALYSIS BETWEEN VARIABLES

The Pearson correlation test is performed to measure the correlation between two variables. Barrett et al. (2004) state that a correlation value of -1 indicates a negative correlation and +1 indicates a positive correlation. Table 4 shows that all variables are significantly correlated at the 0.01 level. Assurance has the strongest correlation coefficient value with customer satisfaction with service delivery in the life insurance industry ($r = 0.684$), which implies that customers are reliant on their insurance agents and are confident that they will be provided with all the correct and useful information and advice. On the other hand, responsiveness ($r = 0.659$), tangibles ($r = 0.635$), reliability ($r = 0.618$) and empathy ($r = 0.587$) also show significant results, implying that the customers believe that their insurance agents are aware of their clients' needs. Awareness and sensitivity play an important role in the work of an agent as the customers need to feel as though their relationship with an agent is valued by the agent.

RELATIONSHIPS ON CUSTOMER SATISFACTION

Table 5 depicts an explanation of the multiple regression analysis of the data collected. The coefficient of determination (R^2) provides information about the goodness of fit of the regression model. The regression model fits the data well since the adjusted R^2 for the model is 0.576. This means that almost 58% of the variance in

TABLE 4. Correlations between variables

	Mean	Std. Dev.	1	2	3	4	5	6
(1) Assurance	3.940	0.578	1					
(2) Reliability	3.665	0.671	0.767**	1				
(3) Tangibility	3.750	0.644	0.654**	0.612**	1			
(4) Empathy	3.673	0.690	0.519**	0.608**	0.457**	1		
(5) Responsiveness	3.545	0.754	0.729**	0.752**	0.652**	0.519**	1	
(6) Customer Satisfaction	3.783	0.733	0.684**	0.618**	0.635**	0.587**	0.659**	1

Note: **Correlation is significant at 0.01 level (2-tailed).

the dependent variable is explained by the independent variables. The highest tolerance value is 0.615, well above 0.10, and the highest Variance Inflated Factor (VIF) value is 3.358, less than 10. Both results indicate multi collinearity is absent.

Hypothesis 1 examines the relationship of assurance and customer satisfaction with service delivery in the life insurance industry. The results imply that assurance has a positive relationship with a significant effect on customer satisfaction with service delivery in the life insurance industry ($\beta_1 = 0.300$, t-value = 2.643, $p < 0.05$) and support the hypothesis.

Hypothesis 2 predicts theta significant relationship between reliability and customer satisfaction with service delivery in the life insurance industry. The results in Table 5 show that reliability has an insignificant effect on customer satisfaction with service delivery in the life insurance industry ($\beta_2 = -0.062$, t-value = -0.516, $p > 0.05$) and does not support the hypothesis.

TABLE 5. Influence of independent variables on customer satisfaction

	Standardized Beta		Sig.	Collinearity Statistics	
	Coefficients	t		Tolerance	VIF
Assurance	0.300	2.643	0.010*	0.332	3.008
Reliability	-0.062	-0.516	0.607	0.298	3.358
Tangibility	0.224	2.416	0.018*	0.499	2.006
Empathy	0.259	3.102	0.003*	0.615	1.627
Responsiveness	0.206	1.861	0.066	0.348	2.870
Adjusted R ²	0.576				
F	27.874				
Sig. F	0.000				

Note: *p < 0.05

The estimated regression equation for the model is formulated as:

$$Y = 0.147 + 0.300 X_1 - 0.062 X_2 + 0.224 X_3 + 0.259 X_4 + 0.206 X_5$$

where;

- Y = Customer Satisfaction,
- X₁ = Assurance,
- X₂ = Reliability,

- X₃ = Tangibility,
- X₄ = Empathy, and
- X₅ = Responsiveness.

Figure 2 illustrates the normal probability plot (P-P) and scatter plot of the model. As demonstrated, no major deviations from normality exist as most of the scores are rectangularly distributed in the center.

Hypothesis 3 postulates a significant relationship between tangibles and customer satisfaction with service delivery in the life insurance industry. The results conclude that tangibles have a positive relationship and a significant effect on customer satisfaction with service delivery in the life insurance industry ($\beta_3 = 0.224$, t-value = 2.416, $p < 0.05$) and support the hypothesis.

Hypothesis 4 predicts a significant relationship between empathy and customer satisfaction with service delivery in the life insurance industry. The results demonstrate that empathy has a positive relationship and a significant effect on customer satisfaction with service delivery in the life insurance industry ($\beta_4 = 0.259$, t-value = 3.102, $p < 0.05$) and support the hypothesis.

Finally, hypothesis 5 predicts a significant relationship between responsiveness and customer satisfaction with service delivery in the life insurance industry. The result simply that responsiveness has an insignificant effect on customer satisfaction with service delivery in the life insurance industry ($\beta_5 = 0.206$, t-value = 1.861, $p > 0.05$) and reject H5.

DISCUSSION

The present study empirically examines the effects of service quality on customer satisfaction with service delivery in the life insurance industry. The assurance dimension of service quality, as illustrated in Figure 3, has the strongest impact on customer satisfaction with service delivery in the life insurance industry (p -value < 0.05). Highly skilled and experienced employees of life insurance providers provide confidence to customers that lead to positive word of mouth outcomes (Arasli et al. 2005a). Thereafter, the company has a good reputation from the customer perspective. Analogous findings are also noted by Mokhlis (2012), Mengi (2009) and Munusamy et al. (2010).

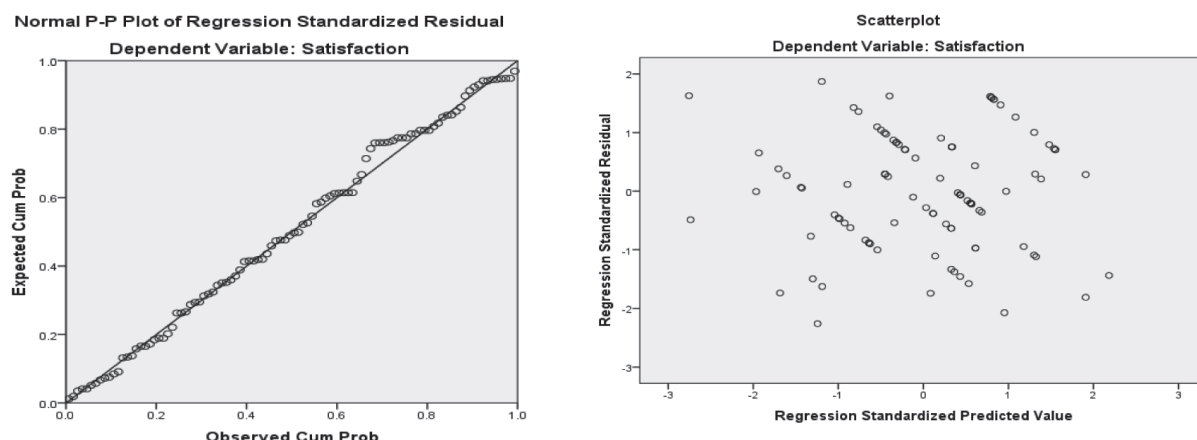


FIGURE 2. Normal P-P plot and scatterplot

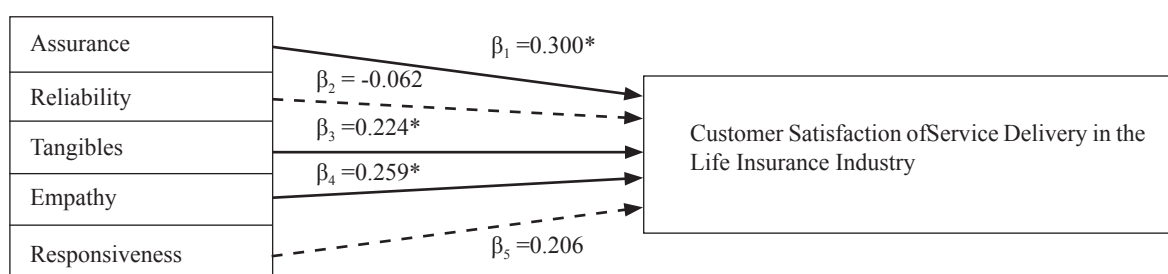


FIGURE 3. Results of research model

Additionally, both empathy and tangibles have a positive significant relationship with customer satisfaction with service delivery in the life insurance industry. The results of the present study are consistent with the findings of Kumar et al. (2010) and Lai (2004). The physical environment is often used as an indication of a firm’s competence and quality by customers before a purchase (Bitner 1992). The life insurance company or its dedicated agents should provide the best value for its products and services offerings in meeting customer satisfaction such as offers speedy and quick service in a pleasant atmosphere and appealing physical facilities, updates customers on the latest products and services offerings, creates direct contact and frequent interaction with policy holders, and manages complaints and queries properly and efficiently.

However, the present study finds that no significant support exists for the impact of reliability and responsiveness on customer satisfaction with service delivery in the life insurance industry. The findings of the present study are inconsistent with those of extant research (e.g., Arasli et al. 2005b; Beh 2008; Huiet al. 2003; Vong 2007) where customer satisfaction is not related to the opinion of customers regarding reliability of the service delivered and the experience of customers in the service delivery process (Jamal & Nazer 2002).

CONCLUSION AND RECOMMENDATIONS

Assurance has a significant influence on customer satisfaction with service delivery in the life insurance industry in Malaysia, followed by empathy. The Malaysian government has introduced the new voluntary retirement savings solution for urban and rural workers to cover customer retirement needs, which could contribute to the growing social insurance market in Malaysia. Assurance is well handled by offering outcome that suit to the needs of policy holders. The empirical examination of the factors that influence customer satisfaction with service delivery in the life insurance industry (i.e. assurance, reliability, tangibles, empathy and responsiveness) advances the understanding of these constructs and their linkage to deployment behavior for purchasing life insurance.

Consumer confidence in the insurance industry is expanded when consumers notice and experience an increase in product transparency and service standards by life insurance providers, which can be achieved by employing more professional and highly educated agents and financial advisors capable of critically reviewing policy wording and premium rates of the offerings to policy holders. Consumers express satisfaction with the service delivery of the life insurance company and its dedicated agents by renewing insurance policies with a company; becoming more willing to purchase other products and services offered by the company; and recommending the life insurance company and its dedicated agents to friends

and family. Next, life insurance providers in Malaysia should learn the experience of countries like Australia in order to gain an acceptable return on capital by enhancing product and service offerings in meeting consumers' divergent demands.

The key contribution of the present empirical study is to bring forward findings that could be of interest to researchers and practitioners in understanding the factors that influence customer satisfaction with the service delivery of the life insurance industry. The results can benefit life insurance companies by providing guidance during the formulation of effective marketing strategies, and evaluation of the acceptance of the life insurance industry. The empirical findings offer academic contributions to the existing body of knowledge of consumer behavior by narrowing the research gap regarding customer satisfaction in the context of service delivery in the life insurance industry. Next, the current research framework could also be the basis for future research investigating customer satisfaction with service delivery in the life insurance industry. Moreover, the sophisticated quantitative data analyses employed will allow future researchers to explicate the contribution of the current study towards the understanding of consumer behavior in relation to the life insurance industry.

Other issues exist that require further investigation. Future research should be expanded to other geographical areas with different cultural values, as well as a wider spread of sample size, and tested on a complex model, such as structural equation modeling with the presence of mediating and moderating variables since the current data were only collected from respondents within the Federal Territory of Labuan, Malaysia. Customers' perceptions of service quality are strongly dependent upon customers' values and beliefs, which vary from one culture to another (Furrer et al. 2002).

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Appendix 1
Measurement of instruments

Assurance

- CA01 The behavior of employees gives confidence in customer.
- CA02 Information given to the company will be kept as confidential.
- CA03 Services and products offered are satisfying.
- CA04 Highly skilled and experience employees.
- CA05 The company has a good reputation.

Reliability

- CR01 Speedy and quick service always can be obtained from the company or through its agent.
- CR02 The company provide the best value products and services available.
- CR03 The product and services provided live up to my expectations.
- CR04 The coverage offered is within my affordability.
- CR05 Procedure of getting an insurance coverage is easy.
- CR06 The company and its employees have sincere interest in solving problem.

Tangibles

- CT01 The company provide sufficient printed materials on the offered products.
- CT02 Pleasant atmosphere and appealing physical facilities.
- CT03 Smart looking and well-dressed employees.
- CT04 The employees have an outstanding communication skill.

Empathy

- CE01 Customers are given individualized attention.
- CE02 Services and products offered are convenient to customers.
- CE03 Staff understand the specific needs of their customers.

Responsiveness

- CRS1 Complaints and queries are managed properly and efficiently.
- CRS2 Employees gives prompt services to customers.
- CRS3 Employees can always make time to attend to customer's queries and problems.
- CRS4 Employees often update customers on the latest services and products.

Satisfaction

- CS01 I would likely renew my insurance policy/policies with this company.
 - CS02 I would likely purchase another product/service from this company.
 - CS03 I would recommend this insurance company to my friends and family.
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