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Relationship Between Quality of Insurance Services and Likelihood to Switchinginsurance Companies

Economics

KEYWORDS : Quality service,decision making, insurance service, insurance company

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ABSTRACT

Intense competition in the insurance market actively directsinsurance companies to maintaining the existing and attracting new users of insurance services. Users of insurance services may choose between differentiated insurance companies that offer a diverse range of insurance services. This enables users with the experience they have gained by working with the insurance company to decide whether to switch to another insurance company. In this paper we examine the quality of insurance services that users perceive with the existing insurer and its impact on the probability of switching to another insurance company. Based on a sample of 200 Slovenian users, we have found that there are significant differences in the perception of service quality, especially perceived friendliness and professionalism of the employees and the perceived quality of offers of insurance companies among users with high and users with low levels of education. Research has shown that the likelihood of switching to another insurance company is statistically significant and that perceived friendliness and professionalism of employees, perceived quality of offers of insurance companies, and perceived quality of implementation of insurance services, have negative effects on it.

1. INTRODUCTION

The service quality has become a highly instrumental factorin the aggressive competitive marketing. Research has shown that the quality of services is one of the fundamental factors for the survival of insurers and has also become the most important factor for both maintaining existing portfolios and acquiring new business (Tsoukatos 2003; Tsoukatos and Rand 2006). Researchers in the study of quality insurance services focus on various areas, such as life insurance, health insurance, car insurance, whereby the quality of insurance services is often seen as the cause for the perceived satisfaction, customer loyalty, perceived value of the service and perceived equity (Stafford et al. 1998; Hellier et al. 2003;Siddiqui and Sharma 2010; Sandhu and Bala 2011; Šebjan et al. 2013).Some researchers placed greater emphasis on the study of factors that influenceintention of switching service providers, such as quality, switching costs, commitment of organization to customers, unfair price, anger incident, consumer involvement, alternative attractiveness, satisfaction (Jones et al. 2003; Antón et al. 2007).

2. LITERATURE REVIEW

Various insurance organizations strive to increase insurance service quality and thereby improve profits. Researchers provide slightly different definitions of service quality. Service quality is generally specified as a multidimensional and hierarchical concept and those evaluations are likely to be context dependent (Akter et al. 2013).Zeithaml et al. (1990) defined service quality as the extent of discrepancy between the customers' expectations and their perceptions. Kotler (2000) defined quality as the totality of characteristics and features of a product/service that bear on its ability to fulfill stated/implied needs. Various studies conducted conceptualize service quality in five dimensions: tangibles, reliability, responsiveness, assurance, and empathy (Cronin and Taylor 1992; Parasuraman et al. 1988; Raajpoot 2004).

Customer switching could be seen as a result of a series of problems encountered over a period of time that eventually and slowly leads to switching to another service provider (Bejou and Palmer 1998). Similarly, there are causal factors, which indirectly influence customer switching, for example, service quality and satisfaction (Zeithaml et al. 1996). Researchers in various fields have studied factors which affect the switching of organizations that offerthe same products/services (Awwad and Neimat 2010; Keaveney et al. 2001).It has been found that different variables (pricing, reputation, service quality, effective advertising competition, inconvenience, core service failures, service encounter failures, employee responsiveness to service failures, attraction by competitors, changes in technology, and switching cost,…) had a significant effect on switching behavior of service users (Awwad and Neimat 2010; Khan et al. 2010). In the field of insurance, it was found that for switching the insurance companies in addition to the cost of insurance, overall quality of insurance services was also important (Beesten et al. 2012).Not a lot of research wasdone that examined the impact of various factors on the probability of switching insurance companies.Keaveney et al. (2001) also looked at the role of education level of users and switching organizations. It was found that service continuers have higher average education levels than switchers. Customers with higher education levels may be capable of developing sophisticated and probably accurate estimates of what to expect from a service.Higher education levels may also provide consumers with greater skills in forming hypotheses about future service performance.On the theoretical basis, we formed two hypotheses, which are presented below.

3. RESEARCH METHODOLOGY

3.1Hypothesis

H1: There are significant differences in perceived quality of insurance services between customers who have low levels of education, and the customers who have higher level of education.

H2: There is a significant impact of perceived quality of insurance services on the likelihood to switching insurance company:

H2a: There is a negative and significant impact of perceived quality of implementation of insurance services on the likelihood to switching insurance company.

H2b: There is a negative and significant impact of perceived quality of friendliness and professionalism of employees on the likelihood to switching insurance company.

H2c: There is a negative and significant impact of perceived quality of offers of insurance companies on the likelihood to switching insurance company.

3.2 Sample

Data was collected with an online questionnaire from 3 May 2010 to 31 May 2010. The target population consists of users who were legally able to buy insurance services in Slovenia, aged 18 years and older. For hypotheses testing, data was collected based on a convenience non-random sample of 200 users of insurance services from Slovenia.

3.3 Methodology

Perceived quality of insurance services was measured using five-point Likert scale from 1 = strongly disagree to 5 = strongly

agree, where we used 27 items (Chen et al. 2012;Yoo and Park 2007; Hariss and Goode 2004). Likelihood to switching insurance company was measured by using five-point scale from 1 = verylowlikelihood (20 % or below) to 5 = veryhighlikelihood (81 % and over). To verify the hypothesis, we used t-test for the two independent samples andmultiple regression analysis.

4. RESULTS OF RESEARCH

4.1 Characteristics of Sample

In terms of demographics, 46 % were male (n = 92) and 54 % female (n = 108). Users were educationally divided into two groups. The first group consists ofusers with low levels of education, which included users who finished the primary school or less, vocational school and secondary school (71.9%). The second groupconsists ofusers with a high level of education, who finished college and more(28%).The largest group wererespondents from 36 and 45 years old (40%), followed by those who were from 26 to 35 years old (24%) and respondents who were from 46 to 55 years old (18%). The smallest group of respondents was from 66 years and older (2%).The characteristics ofthe respondents are presentedby Table 1.

Table 1: Sample characteristics

Characteristics	Frequency	Share(%)
Gender		
Male	92	45.9
Female	108	54.1
Education		
Primaryschool or below	15	7.6
Vocationalschool	48	24.2
Secondaryschool	80	40.1
College and more	57	28.0
Age		
Below 25	18	8.9
26 to 35	48	24.2
36 to 45	80	40.1
46 to 55	37	18.5
56 to 65	13	6.4
66 and more	4	1.9

4.2 Factor analysis

We performed a principal components factor analysis with varimax rotation to assess the validity of the measurement scales. The Kaiser-Meyer-Olkin (KMO) measure of sampling adequacy was 0.947, which is higher than the minimum recommended value of 0.50 and suggests that it was suitable to use principal components analysis.The rotated components matrix is shown in Table 2. Three factors were extracted, explaining 67.952% of the variance (VAR).Bartlett's test of sphericity (BTS = 3888.764) was also significant (p< 0.001). Factors with Eigen values greater than 1 and factor loadings greater than 0.50 were retained for further analysis.The internal consistency was tested using Cronbach's alpha (α = 0.972). The items of the scales with their loadings, percentages of explained variance, item reliability, means,and standard deviations are presented in Table 2. In the last three columns of Table 2 results of t-test regarding differences between customers with low and high level of education, are presented – they are explained later in the article.

Table 2: Factor analysis and t-test for mean of items

Factors and items		Factor loading[a]	Mean[b]±SD	Variance	Customer with low level of education	Customer with higher of education	Sig.[c]
Perceived quality of implementation of insurance services (QI)							
QI1	It is easy to obtain and sign the insurance contract.	0.791	3.87±0.801	57.931	3.85	3.91	n.s.
QI2	I never wait long for the response from employees.	0.785	3.72±0.960		3.63	3.95	n.s.
QI3	The insurance company pays for the damage quickly.	0.705	3.65±0.967		3.51	4.00	**
QI4	The insurance company estimated the damage quickly and in line with my expectations.	0.690	3.70±0.977		3.58	4.00	*
QI5	Employees are always accessible.	0.690	3.89±0.903		3.82	4.07	n.s.
QI6	Employeeswork efficientlyand pay heed to my needs.	0.678	3.79±0.855		3.67	4.09	**
QI7	The insurance company takes good care of all information.	0.642	3.73±0.829		3.70	3.80	n.s.
QI8	I trust the employees of the insurance company.	0.634	3.79±1.007		3.71	4.00	n.s.
QI9	Insurance services take place quickly and without red tape or long procedures.	0.619	3.76±0.975		3.69	3.95	n.s.
QI10	Employees ask me about my satisfaction with the insurance company performance.	0.597	3.72±1.055		3.64	3.93	n.s.
QI11	Opening hours suit me.	0.535	3.92±0.829		3.81	4.23	**
Perceived friendliness and professionalism of employees (QE)							

QE1	I have never had any conflicts with the company.	0.522	3.75±1.090		3.65	4.00	n.s.
QE2	Employees always update me on the latest insurance offers.	0.823	3.85±0.878		3.73	4.16	**
QE3	Employees always help and give advice in line with my desires and needs.	0.702	3.89±0.889		3.74	4.27	***
QE4	The insurance company creates a sense of security.	0.662	3.79±0.961		3.66	4.11	**
QE5	The employees always prepare aninformative estimate of insurance, based on whichI make consideration.	0.658	3.90±0.907		3.81	4.11	n.s.
QE6	I always receive clear and professional answers to my questions.	0.655	3.83±0.886	5.770	3.67	4.23	***
QE7	Employees are properly trained.	0.620	3.89±0.824		3.77	4.18	**
QE8	Employees are friendly, helpful, polite and respectful.	0.603	3.99±0.862		3.89	4.23	*
QE9	Employees always devote sufficient time and pay attention to my needs.	0.601	3.85±0.846		3.77	4.07	*
QE10	Employees are careful listeners.	0.585	3.90±0.849		3.79	4.18	**
QE11	Employees observe the dress and grooming standards.	0.564	4.01±0.797		3.92	4.23	*
QE12	Employees updateme oninsurance in form of brochure.	0.558	3.75±0.945		3.60	4.14	***
Perceived quality of offers of insurance companies (QO)							
QO1	The premises of the insurance company are tidy, clean and wellfurnished.	0.844	4.09±0.673		3.96	4.41	***
QO2	The company has variety of insurance products.	0.710	3.96±0.787		3.86	4.20	**
QO3	Promotional brochures are attractive, easy to understand and appropriately designed.	0.633	3.82±0.838	4.251	3.68	4.16	***
QO4	Employees always thank me for signing the insurance.	0.512	3.96±0.905		3.88	4.16	n.s.

Notes: [a]All factors loadings are significant at 0.001 level, [b] Measured on a five-point scale, ranging from 1 = strongly disagree to 5= strongly agree; [c] Sig. 2-tailed (significance) $^{*}p \le 0.05$, $^{**}p \le 0.01$, $^{***}p \le 0.001$, n.s.-not significance difference.

4.3 Hypothesis

Wefound that users with higher education on average perceive higher quality of insurance services than users with low education levels.Based on the results of t- test for the two independent samples, we find that there are significant differences between customers with low level of education and those with higher level of education regarding the perceived quality of insurance services. Significant differences between the two groups are found in the context of "Perceived friendliness and professionalism of employees (QE)" (t=-2.105; $p< 0.05$) and "Perceived quality of offers of insurance companies (QO)" (t=-3.316; $p< 0.01$). Users with higher levels of education perceive higher quality of insurance services in their insurance company than users with lower levels of education. As already described, in Table 2we present differencesregardingeach item within each factor. Within the factor "Perceived friendliness and professionalism of employees" maximum differences are found at followingitems: "Employees always help and advice and line with my desires and needs," "I always receive clear and professional answers to my questions," and "Employees give to me updates about insurance in form of brochure."Within the factor "Perceived Quality of offers of insurance companies" a maximum difference is found at statements "The insurance company has its premises tidy, clean and equipped," and "Promotional brochures are attractive, easy to understand and appropriately designed."

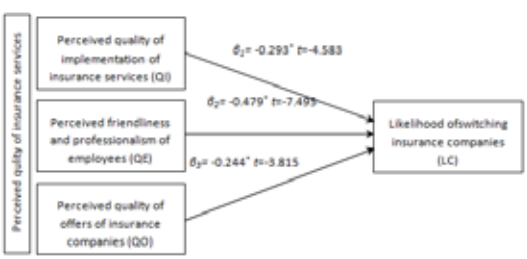
Difference between customers with low level of education and customers with higher levelsof education regarding the factor "Perceived quality of implementation of Insurance Services (QI)," is not significant (t=-0.296; p=0.767).On the level of single

items within this factor significant differences are found at following items:"The insurance company is paying for the damage quickly", "The insurance company estimated the damage quickly and in line with my expectations", "Employees are fast and flexible,"and "Opening hours suit me".Thus, H1 was confirmed.

In the next step in the study we assessed the relationship between perceived quality of insurance services and the likelihood of switching insurance companies. In the context of a multiple regression analysis ANOVA results indicate that the proposed regression model is significant ($p \leq 0.001$). The coefficient of determination R^2 is 0.375. The correlation coefficient (R = 0.613) shows a strong linear correlationbetween the three factors of perceived quality of insurance services and the likelihood of switching insurance company.

Based on multiple regression analysis, we find that there is a statistically significant and negative correlation between the factors of perceived quality of insurance services and likelihood of switching insurance company. The most powerful negative and statistically significant relationship exists between the factor perceived friendliness and professionalism of employeesand the likelihood of switching insurance companies(β_1= - 0.479; $p \leq 0.001$; t= -7.495). From Figure 1 it can be seen that there is a statistically significant negative correlation between the factorperceived quality of implementation of insurance services and the likelihood of switchinginsurance companies (β_2= - 0.293; $p \leq 0.001$; t= -4.583)and a negative correlation between the factorperceived quality of offers of insurance companies and the likelihood of switching insurance companies(β_3= - 0.244; $p \leq 0.001$; t= -3.815). Thus H2 was confirmed.

Figure 1: Research model with results of regression analysis



Notes: β-Standardized Coefficients Beta; Sig. (significance) $p \leq 0.001^*$; R=0.613; R^2=0.375; SE=0.871.

5. CONCLUSION

In this paper we discuss the quality of insurance services and its impact on the probability of switching of insurance companies. We have found that there is a statistically significant correlation between the quality of insurance services and the probability of switching insurance companies. Relationship between quality of insurance services and the probability of switching insurance companies is negative, which means that users who have a positive perception of the quality of insurance services for its insurer, on average alsohave no intention of changing it. This means thathigher perceivedquality of insurance services by user, the lower the probability of switching to another insurance company is going to be. The greatest negative impact on the likelihood of switching insurance companies has the factor perceived friendliness and professionalism of employees, followed by the factor perceived quality of implementation of insurance services and perceived quality of offers of insurance companies. From the results of the research it can be concluded that employees have a key role in the process of services, their kindness and professional behavior when dealing with usersin particular.

In the context of demographic factors we discussed the level of education of users and found that there are significant differences between users with low education andthose with a high level of education regarding the perceived quality of insurance services. Significant differences were found in two factors, namely in "Perceived friendliness and professionalism of the Employees" and "Perceived quality of offers of insurance companies." The largest differences within the factor "Perceived friendliness and professionalism of the Employees" was found in items "Employees always help and give advice in line with my desires and needs," "I always receive clear and professional answers to my questions," and "Employees update me about the insurance services in form of a brochure. "The largest differences within a factor "Perceived quality of offers of insurance companies" were recorded in items "The premisesof the insurance company aretidy, clean and well-furnished" and "Promotional brochures are attractive, easy to understand and appropriately designed." Based on the results of the research we can confirm that on average,users with higher education levelhave higher perceived quality of insurance services than users with low education levels. This indicates that users with higher education levels have the skillthat allows them to more easily, quickly and adequately perceive and evaluate the development process and services within it and the quality of insurance services. Despite the fact that we did not detect any differences between users with low and higher education levels regarding the factor "Perceived quality of implementation of insurance services", we noticed differences in fouritems within the factor ("The insurance company is paying for the damage quickly", "The insurance company estimated the damage quickly and in line with my expectations", "Employees work efficiently and pay heed to my needs," and "Opening hours suit me").

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