

Evaluating the Effects of Service Quality, Customer Satisfaction, and Service Value on Behavioral Intentions with Life Insurance Customers in India

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ABSTRACT

The present study aims to empirically test and evaluate the direct and indirect effects of service encounter constructs of service quality, customer satisfaction and service value on loyalty related behavioral intentions of customers in Indian Life services in India to determine the best fitting model. Most studies based on comprehensive models of service constructs relationships have not considered alternative competing models. The theoretical background and the empirical support for these issues derive mostly from prior studies in the developed markets of the U.S., UK and Canada. Further, the study aims to contribute to resolution of the variance in structure and dimensionality of service quality (dimensionality) in literature by developing and validating a second order model of service quality which integrates the two dominant perspectives ie the Nordic and the American approach. Design/methodology/approach: A second order scale of service quality was developed and validated by integrating the American and Nordic approach to Service Quality using exploratory factor analysis and confirmatory factor analysis. The constructs of Customer satisfaction, service value and Behavioural intentions were validated using confirmatory factor analysis. Two competing models of effects of the three service encounter constructs on Behavioral Intentions were tested using structural equation modeling. The results show that Service quality is a second order construct consisting of the dimensions of Core service, Service Delivery, Sales Agent Quality, Tangibles and Empathy. The process dimensions (sales Agent Quality and Service delivery) are most important in overall service quality perceptions. The effect of service quality on positive behavioural intentions is both direct and indirect with the moderating effect of service value and customer satisfaction being significant. The study contributes to research by developing and validating a hierarchical model of service quality and testing two competing models of direct and indirect effects of service quality on behavioral intentions so that there is better understanding of the simultaneous and composite interactions and effects of the three service encounter constructs. The results would provide practitioners with a valid measure of service quality in life insurance services and would enable them to devise marketing strategies which enhance customer loyalty related behavioral intentions. The study addresses the gap related to wide divergence in dimensionality and structure of service quality and contributes to the debate on whether the effect of service quality on behavioral intentions is only indirect or both direct and indirect.

KEYWORDS

Behavioral Intentions, Customer Satisfaction, India, Life Insurance Services, Service Quality, Structural Equation Modeling

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INTRODUCTION

The Indian Life Insurance market is still under penetrated and can be considered in the emerging state.

Indian insurance industry ranks 51 across the world in terms of penetration. The Indian Life Insurance premium is a mere 1.5 percent of the GDP, compared to 11.6 percent in South Korea (Palande, Shah and Lunawat, 2003). However, market penetration and per capita coverage is likely to increase with enhanced growth rates in household incomes (Andrade et al, 2012). According to Insurance Regulatory and Development Authority (IRDA), the life insurance industry witnessed a growth of 7.5% in weighted new business premium collections in the first quarter of FY2014-15. The challenge facing most life insurance companies is that they are offering similar policies and hence product differentiation is difficult to achieve. Consequently, Insurance companies in India are adopting a customer-centered strategy. The focus is shifting to enhanced customer satisfaction through superior service quality for higher customer retention, loyalty and profitability.

Deregulation of financial services industry 1990's onwards and reforms have contributed to the relatively fast pace of change as a result of which incumbent firms are facing greater environmental uncertainty. As result, providing superior service quality has assumed strategic importance in Life Insurance services in India.

Service quality allows the company to differentiate itself from its competitors (Lewis, 1991) by increasing sales and market shares, providing opportunities for cross-selling, improving customer relations and thus, enhancing the corporate image. It results in the satisfaction and retention of customers and employees, thus reducing turnover rates. Furthermore, new customers are attracted through positive word of mouth (Lewis, 1991; Caruana 2002).

Life insurance services products are credence products with very few cues that signal quality (Grönroos, 1984). Customers of life insurance services usually rely on extrinsic cues like brand image to ascertain and perceive service quality especially for a "pure" service such as insurance, which has minor tangible representations of its quality and is highly relational during most transactions. The outcomes of life insurance purchase are often delayed and therefore the consequences of a purchase are not immediate which therefore does not immediately lead to overall customer satisfaction. The future benefits of the insurance "product" purchased are difficult to foresee and take a long time to "prove" its effects (Crosby and Stephens, 1987). Hence the rapport between retail employees and customers becomes more important in high social interaction context (Gremler and Gwinner's, 2008).

Although service quality structure is found rich in empirical studies on different service sectors, service quality modeling in life insurance services has not been adequately investigated in the Indian services context. Although, various models have been developed by researchers to measure Service Quality, though it is difficult to measure because of its intangibility (Eshghi et al., 2008), there is still lack of convergence regarding the dimensionality of instruments for measurement of service quality which has been found to vary with the service and market context (Carman, 1990).

Insurers in the USA consider retention as the most important determinant of economic success (Moore and Santomero, 1999). Customer retention leads to enhanced opportunities for cross selling that may also be accompanied by higher prices, positive word of mouth (WOM) behaviour and higher efficiency in serving customers because of experience curve effect (Heskett et al., 1997). Selling cost of an insurance policy is not recovered unless the policy is renewed for at least three or four years (Zeithaml et al., 1996). Research has shown that the quality of services and the achievement of customer satisfaction and loyalty are fundamental for the survival of insurers (Lenskold, 2003).

SIGNIFICANCE OF THE STUDY

The focus of services research in recent times has shifted from measurement and conceptualization of service encounter variables to the determination of how these variables interact and influence other simultaneously and how they affect customer behavioural outcomes which are preceded by behavioural intentions. Understanding how service encounter constructs effect behavioural intentions

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