

## AN EMPIRICAL ANALYSIS OF THE STRATEGIES UNDERTAKEN BY INSURANCE COMPANIES IN SAUDI ARABIA TO ENHANCE CUSTOMER LOYALTY AND CUSTOMER RETENTION

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### ABSTRACT

*Customer loyalty and customer retention is very important for the success of an organization. The present study is devoted to investigate the measures used by insurance companies in Saudi Arabia in enhancing the customer loyalty and customer retention. The study is based on primary data collected from 80 employees of insurance companies in Saudi Arabia. The findings of the study show that the insurance companies in Saudi Arabia are using appropriate incentives to build customer relationship to enhance customer loyalty and customer retention. The reason for concentration of demand to motor insurance and health insurance is other than loyalty and retention measures taken by the insurance companies. A recent study shows that people reluctant to buy insurance other than compulsory insurance is the fact that they consider insurance against the Islamic principles (Sharia'h).*

**Keywords:** *Insurance, Customer Loyalty, Customer Services, Customer retention, Saudi Arabia, Sharia'h*

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### INTRODUCTION

Marketing is managing profitable customer relationships. The twofold goal of marketing is to attract new customers by promising superior value and to keep and grow current customers by delivering satisfaction. Many customer relationship management (CRM) programs, particularly cross selling initiative are aimed at growing the number of loyal customers a brand has. The attraction of loyal customers lies in the understanding that they bring higher returns while costing less to keep when compared to disloyal customers who divide their loyalty across many brands (Reichheld & Sasser, 1990). In addition the more products customers have with one service provider the harder it is for them to switch away, hence customer retention increases (Reichheld & Sasser, 1990; de Ruyter et al. 1998). Loyal customers also tend to be attitudinally loyal which means they are less demanding of the service and easier to please (de Ruyter et al. 1998; Bloemer et al. 1999). All these reasons point to the fact that growing the number of customers is an attractive goal for organization.

Retaining customer is important for growth and success of any business organization irrespective to tangible goods industry or intangible (service industry). Ramakrishnan, (2006:1) defines customer retention as the marketing goal of preventing customers from going the competitor. Customer retention is the way in which organizations focus their efforts on existing customers in an effort to continue doing business them (Mostert et al, 2009). The researches show that it is five times cheaper to retain a customer than to acquire a new customer. Thus it becomes important for all business organizations to strive for retaining their customers.

After this introduction, the rest of the paper is organized in following major parts:

- i. A literature review on prior studies on risk perception and insurance has been presented
- ii. Objective of the study
- iii. Statement of the problem
- iv. Methodology

- v. Results and Discussions
- vi. Conclusions

## 1. REVIEW OF LITERATURE

Over the past two decades, practitioners and academics have paid considerable attention to customer retention and its antecedents and consequences, primarily because of the impact of retention on customer life time value and consequently on the firm's bottom line (Bolton 1998; Rust and Chung 2006; Verhoef 2003; Villanueva and Hanssens 2007). Gaining sustainable competitive advantage over competitors through satisfying customer relationships has become one of the strategic weapons for a modern day service firm (Zeithaml et al, 2000). The quality of relationship with their customers has been established as an important criterion of success of service providers (Panda, 2003) which stimulates customer satisfaction and loyalty (Jones, 2002). Over the years researchers have explored and established significant relationship between service quality and increase in profit (Kish, 2000; Duncan et al, 2002), service quality and customer retention (Ranaweera and Neely, 2003; Caruana, 2002; Bei and Chiao, 2001; Anderson and Srinivasan, 2003, Yen and Gwinner, 2003, Meuter et al) service quality and repurchase intention (Levesque and McDougall, 1996; Newman 2001; Caruana, 2002).

Fluss (2010) notes that competitors are always on the look out to steal customers through better deals. Fluss has observed that annual customer attrition rates range from 7% in industries that have high exit barriers such as banking and insurance, to almost 40% in the mobile phone industry. Customer retention has a direct impact on long term customer lifetime value, which is a more profitable avenue for firms that seek to pursue growth and sustainability or those that seek to protect themselves from market shrinkage resulting from a contracting economy (Gee et al., 2008). Supporting this argument, Lombard (2009) notes that today the pressure on companies to retain customers is fuelled by the market where customer acquisition is low.

## 2. OBJECTIVES OF THE STUDY

The present study is undertaken with the following objective:

- To find out the strategies to increase the customer loyalty and customer retention by insurance companies in Saudi Arabia.

## 3. STATEMENT OF THE PROBLEM

It is five times cheaper to retain a customer than attracting a new customer. Since reforms in 2004, the demand for insurance is generated mainly by Motor insurance and health insurance. Approximately 72% of the total demand is generated by compulsory lines of insurance policies namely motor and health insurance and the trend has been continuing for long. The researcher in this study would like to investigate do insurance companies takes measures to increase the customer loyalty and customer retention.

## 4. METHODOLOGY

This study involved an empirical investigation and relied on primary data collected through questionnaires. The study is exploratory research aimed at finding out the strategies of insurance companies for enhancing customer loyalty and customer retention.

### 4.1. Data collection

The study is mainly based on primary data collected from employees currently working in insurance companies of Saudi Arabia. The employees have been categorized in three categories namely marketing executives, salesman and others. In response to 120 questionnaires distributed 80 usable questionnaires were received.

### 4.2. Survey instrument

A comprehensive questionnaire was developed for data collection from the current users of insurance. The questionnaire consisted questions focusing on areas such as the insurance purchased by people in Saudi Arabia, Value offered to existing customers, Customer service measures adopted by insurance companies in Saudi Arabia. The questionnaire was originally developed into English and translated into Arabic for high response rate.

### 4.3. Statistical tools

Statistical Package for Social Sciences (SPSS) had been used for data analysis. Statistical tools used were Percentages, Mean, Frequency, Chi-square test, and F-test.

## 5. HYPOTHESIS

- H1** The demand is concentrated to compulsory lines of insurance.  
**H2** The insurance companies in Saudi Arabia offer value to enhance existing customer loyalty and retention.  
**H3** The insurance companies in Saudi Arabia have in practice customer services measures to enhance customer loyalty and retention.

## 6. RESULTS AND DISCUSSIONS

The responses from the respondents have been presented in the form of three tables numbered as table 1, table 2, and table 3. Each table presenting a set of related variables namely table 1 presents the results in response to question what insurance policy people generally purchase, table 2 presents the results of question value offered to existing customers, and table 3 presents the results of the question customer service measures used in insurance companies of Saudi Arabia.

**H1** *The demand is concentrated to compulsory lines of insurance.*

Table 1, below shows that respondent employees of insurance companies agree to the fact that motor insurance, and health insurance policies are purchased by the people of Saudi Arabia. The mean value for these two policies are the lowest; motor insurance mean 1.09, standard deviation 0.28 and health insurance mean 1.14 and standard deviation 0.35. Other insurance policies namely property insurance, liability insurance, group insurance, protection and savings insurance, aviation insurance, and energy insurance are generally not purchased. This is the reason why the major part of the written annual premium is mainly contributed by the motor insurance and health insurance which was as high as 72% in 2012.

From the results presented in table 1, it can safely be said that the demand of insurance in Saudi Arabia is concentrated to compulsory lines of insurance namely motor insurance and health insurance. Thus with support of results hypothesis 1 is accepted.

**H2** *The insurance companies in Saudi Arabia offer value to enhance existing customer loyalty and retention.*

In table the results are presented for question what values are offered to existing customers. Four variable were optioned first provide special offers, discounts and incentives to existing customers, second provide special offer, discount and incentives to existing customers on purchasing new products, third provide flexible terms for payment to existing customers, and fourth invite the existing customers for product awareness/education. From the four options given to the employees, 67.5% agreed that the insurance companies in Saudi Arabia 'provide special offers, discounts and incentives to the existing customers. However special offer to existing customers on purchasing new products is was supported by only 18.8% respondents, and 10% said that the existing customers were offered flexible terms of payment. Last but very important 'existing customers were invited for product awareness and education programs by insurance companies' is not in much practice in Saudi Arabian insurance companies. In response the three categories of employees Salesman, Marketing executives, and other

executives are significantly different ( $\chi^2 = 20.449$ , Sig.=0.002). Thus from the support of the results the above hypothesis can said to be partially accepted as the insurance companies are concentrating on one aspect only and they need to focus others as well.

**H3** *The insurance companies in Saudi Arabia customer services have in practice to enhance customer loyalty and retention.*

The above hypothesis has been tested from the results in response to question 'What customer service measures are used by insurance companies in Saudi Arabia'. There were seven variables give to the respondents to respond as '1 equal to Yes, and 2 equal to No'. The variables given were 'Total order cycle time, Error in

contract, Order accuracy rate, On time delivery of insurance products, Shipping errors, customer complaints handling, No measures in place'. From among the seven given options Total order cycle time was minimum at mean value 1.66, followed by customer complaints handling with mean value 1.70. However it is concerning to note that the mean value for the all the variables are close to 2 or more atleast more than 1.65 which shows that the employees agree that the insurance companies in Saudi Arabia are lacking in customer service measures. From the results of the responses from the employees the above hypothesis is rejected.

## DISCUSSIONS

This research study was conducted on the customer loyalty and customer retention strategies of insurance companies in Saudi Arabia. The study was conducted from the company's side from the responses of their employees currently working in the insurance companies collected through structured questionnaires investigating on three broader areas namely what insurance policies people purchase in Saudi Arabia, What value is offered to the customers, and what service measures are taken by the insurance companies. In following sections the researcher discusses the results.

The results of the study show that the people of Saudi Arabia mainly purchase compulsory lines of insurance (table 1). The fact is further supported by the secondary data which says that approximately 72% of the total Gross Written Premium is contributed by motor insurance and health insurance. Other insurance policies like protection and saving, liability insurance and property insurance are not much in fashion. Soon the demand for insurance will come down from very high growth rate registered during the last few years. The phenomenon seems to have started because the growth rate during the year 2010 has been only 12% as compared to 33.8% in 2009 (The Saudi Insurance Market Report, 2010). The abrupt increase in demand has come down because the market is saturating and the demand is concentrated compulsory insurance policies only. The finding is supported by the earlier researches which say that the people of Saudi Arabia purchase only compulsory insurance (Ansari, 2010). Ansari (2010) further shows that one of the major reasons for people not purchasing insurance other than compulsory insurance is that they consider insurance against Sharia'h. This is concerning situation for the insurance companies in Saudi Arabia. The results in table 2, shows that the insurance companies do not invite the people for insurance product awareness and education. By inviting people for awareness and education program insurance companies can tell them in detail that it is compulsory for them from the law to operate on Sharia'h compliant basis. They can be educated that it is compulsory for all insurance companies to have internal sharia'h board which makes sure that the details of the insurance product is complying with the requirements of sharia'h. Besides, the insurance companies should focus on providing the existing customers discounts and incentives on purchasing other insurance policies. Customer services play very important role in enhancing the customer loyalty and customer retention. It is noteworthy that the results in this area are not satisfactory and impressive. The response of the employees for all the seven customer service options given shows very high mean value close to 2 on two point scale. Thus, emphasizing that insurance companies need to focus in this area. By improving the service quality the insurance companies will gain strong customer relationship and as shown by earlier studies the quality of relationship with their customers has been established as an important criterion of success of service providers (Panda, 2003) which stimulates customer satisfaction and loyalty (Jones 2002).

## CONCLUSIONS

From the foregoing results and discussion it can safely be concluded that the insurance the overall insurance market is doing good and there is huge scope of growth. However the presently the demand is mainly concentrated to compulsory insurance policies namely motor insurance and health insurance. The employee's responses show that the insurance companies need to focus on inviting people on awareness and education programs. Through it they can remove the barriers in the minds of the customers and immediately answer the questions and clarify the doubts. Overall customer services should be improved for enhancing the customer loyalty and customer retention.

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## Annexure - Tables

Table 1; Insurance people generally purchase in Saudi Arabia

Insurance products people generally purchase	Salesman		Marketing Executive		Other Executives		Total		F	Sig.
	Mean*	SD	Mean	SD	Mean	SD	Mean	SD		
Motor Insurance	1.11	0.32	1.00	0.00	1.13	0.34	1.09	0.28	1.371	0.260
Health Insurance	1.11	0.32	1.10	0.30	1.21	0.41	1.14	0.35	0.731	0.485
Marine Insurance	1.54	0.51	1.38	0.50	1.29	0.46	1.43	0.50	1.974	0.146
Property Insurance	1.57	0.50	1.38	0.50	1.46	0.51	1.49	0.50	0.999	0.373
Liability Insurance	1.77	0.43	1.48	0.51	1.54	0.51	1.63	0.49	3.064	0.052
Group Insurance	1.91	0.28	1.48	0.51	1.83	0.38	1.78	0.42	8.969	0.000
Protection and Savings	1.80	0.41	1.81	0.40	1.88	0.34	1.83	0.38	0.292	0.748
Aviation Insurance	1.89	0.32	1.81	0.40	2.00	0.00	1.90	0.30	2.379	0.099
Energy Insurance	2.00	0.00	2.00	0.00	2.00	0.00	2.00	0.00		

\*yes-1, no-2

Table 2, Value offered to existing customers insurance companies in Saudi Arabia

Value offered	Total		Salesman		Marketing executive		Other executives		Chi- Square statistics
	N	%	N	%	N	%	N	%	
Provide special offers, discounts and incentives to existing customers	54	67.5	31	88.6	13	61.9	10	41.7	$\chi^2 = 20.449$ df=6 Sig.= 0.002
Provide special offers, discounts and incentives to existing customers on purchasing new products	15	18.8	4	11.4	4	19.0	7	29.2	
Provide flexible terms for payment to existing customers	8	10.0	0	0.0	4	19.0	4	16.7	
Invite the existing customers for product awareness/ education	3	3.8	0	0.0	0	0.0	3	12.5	
Total	80	100.0	35	100.0	21	100.0	24	100.0	

Table 3, Customer Service measures used by insurance companies in Saudi Arabia

Customer service measures used in your organization	Salesman		Marketing Executive		Other Executives		Total		F	Sig.
	Mean*	S. D.	Mean	S.D.	Mean	S.D.	Mean	S.D.		
Total Order Cycle Time	1.34	0.482	2.00	0.000	1.83	0.381	1.66	0.476	22.884	0.000
Error in Contract	2.00	0.000	2.00	0.000	1.83	0.381	1.95	0.219	5.390	0.006
Order Accuracy Rate	1.80	0.406	2.00	0.000	1.83	0.381	1.86	0.347	2.388	0.099
On Time Delivery of Insurance Product	1.89	0.323	1.81	0.402	1.71	0.464	1.81	0.393	1.470	0.236
Shipping Errors	1.91	0.284	1.81	0.402	2.00	0.000	1.91	0.284	2.617	0.080
Customer Complaints	1.77	0.426	1.62	0.498	1.67	0.482	1.70	0.461	0.802	0.452
No Measures in place	2.00	0.000	2.00	0.000	1.88	0.338	1.96	0.191	3.850	0.025

\*yes-1, no-2