

# Assessing Customer Relationship Management Strategies for Creating Customer Loyalty in Insurance Industry

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**Abstract** - In a strongly competitive and rapidly changing business environment, the need to be market focused and forming strong relationships with customers is more critical than any other time in the past. Today, organizations have understood that customers are their most significant assets and view Customer Relationship Management (CRM) as profitable transaction. This paper addresses the implementation of the CRM Strategies for creating customer loyalty (CL) in Insurance Industry in Sri Lanka. After reviewing several specialized papers addressing issues in customer relationship management in service sector, four communal CRM strategies (i.e. trustworthy behaviour, shows genuine commitment to service, communicates information to customers efficiently and handling potential and manifested conflicts) were identified. A set of attitudinal statements explaining the underlying phenomenon of these CRM strategies were formulated and administered with a sample of customers (n=100) at randomly selected markets located in Western, Sabaragamuwa, Central, and North-Western provinces. Responses were measured on a 5-point Likert scale ranging from 1 (strongly disagree) to 5 (strongly agree). A number of quantitative and qualitative methods, including Correlation analysis and Regression were used to analyse the data using the SPSS (version 17) software. The results indicate that all four CRM strategies used in insurance industry contribute to enhance the loyalty of their consumers. As expected, the outcomes of this study indicate that a significant relationship exists between CRM strategies used by insurance industry and their CL ( $p < 0.001$ ), with 'Trust' was rated as the most important factor in this respect ( $\bar{x} = 4.26$ ;  $SD = 0.63$ ). The correlation coefficients confirm that the trustworthiness of company ( $r = 0.652$ ,  $p < 0.001$ ), their genuine commitment ( $r = 0.647$ ,  $p < 0.001$ ), good communication ( $r = 0.761$ ,  $p < 0.001$ ), and handling conflicts ( $r = 0.692$ ,  $p < 0.001$ ) are strongly correlated with customer loyalty.

**Keywords** - Customer Loyalty, Customer Relationship Management, Insurance Industry

## I. INTRODUCTION

Insurance companies are playing vital role as a financial institution in the world. As well as insurance are playing remarkable task where is risk management. But compare

with other developed countries contribution of insurance for service sector existing at low level in Sri Lanka. The most popular reason that confidence about the insurance companies exit at low level at Sri Lanka. Life insurance is complex matters. People sometimes make pretty stupid choices with their life insurance. One of them is to lapse their policy; stop paying their premium. Lapsation of life insurance policies is a curse for the insurer and a serious disease within an insurance company - which, if not cured, could even lead to the whole company's bankruptcy. Insurance companies function through the concept of risk pooling and risk sharing. This means that the losses of the few are spread over the group; average loss is substituted for actual loss. Lapsation of policies makes it difficult for insurance companies to construct accurate estimates. Lapsed policies have a detrimental effect on risk pooling and sharing - so, if policies start lapsing then business is sure to deteriorate. Lapsation impacts on customer retention, product performance; pricing factors, public image and workforce planning, and is ultimately detrimental to the insurer's business. Sri Lanka has a low 10.4% life insurance penetration which the industry attributes to a lack of awareness and poor economic conditions brought about succinctly by the fact that 50% of life insurance policies lapse along the way due to insured's finding it difficult to continue to pay their policy premiums because of pecuniary problems.

Life insurance is a valued property and a long-term contract which remains alive through the periodic payment of premiums (as stipulated in the contract). However, due to non-payment of premiums on mandated due dates, the contracts cease to be in force; that is, the policy lapses, and consequently the policyholder's insurance protection is withdrawn.

The insurance industry in Sri Lanka is revolutionizing the Financial Services Sector. The long-term insurance industry, also referred to as the life insurance industry, contributes to the Sri Lankan economy in two ways. The savings of customers are invested into capital projects to develop the country, and the income of households is protected against loss of income related to the untimely death of the breadwinner. 12% - 15% Sri Lankan families are underinsured at present. This study only focuses on

the long-term insurance industry in Sri Lanka. Long-term insurance organizations require a loyal customer base to survive. Loyal customers can be generated through CRM. CRM can assist industry in building long-term beneficial relationships with customers who has a direct influence on the value proposition to customers, and the competitive position in the market. This will lead to customer loyalty and increased profits.

These relationships are important as they can lead to increased customer loyalty and support of Insurance industry. Organizations that serve large numbers of customers through increasingly complex and frequent interactions, (like insurance organizations), stand to gain the most from CRM.

#### A. *Research Questions*

The formulation of a research question can clarify the problem statement. A research question is the translation of the business problem into a specific need for investigation.

The following research questions can be formulated:

1. How important is CRM and customer loyalty?
2. How important is customer loyalty?
3. Which variables influence CRM and what is the extent of their influence?
4. Does the level of CRM influence its customer loyalty?
5. How can industry adapt certain variables such as trust, commitment, two-way communication and conflict handling in order to improve its CRM and customer loyalty?

#### B. *Research Objectives*

The objective of this study is to investigate the influence of the independent variables, trust, commitment, two-way communication and conflict handling on intentional customer loyalty via CRM as the intervening variable in Sri Lankan Insurance industry.

#### C. *Research Hypotheses*

A hypothesis is a proposition that can be proved or disproved through empirical testing. It is an empirical statement concerning the relationship among variables.

To give effect to the problem statement, a number of null hypotheses were formulated, stating that no relationships exist. Alternative hypotheses were also formulated stating that the relationships exist.

Relationship between the independent variables and the intervening variable, CRM

H0<sup>1</sup>: There is no relationship between the perceived trust, commitment, two-way communication, conflict handling and CRM.

H1: There is a relationship between the perceived trust, commitment, two-way communication, conflict handling and CRM.

Relationship between the CRM and customer loyalty

H0<sup>2</sup>: There is no relationship between Customer Relationship Management and intentional customer loyalty.

H2: There is a relationship between Customer Relationship Management and intentional customer loyalty.

## II. RESEARCH METHODOLOGY

A set of attitudinal statements explaining the underlying phenomenon of these CRM strategies were formulated and administered with a sample of customers (n=100) at randomly selected markets located in Western, Sabaragamuwa, Central, and North-Western provinces. The questionnaire is the primary research instrument that was used in the study. The questionnaire included self-developed items, as well as items from questionnaires used in previous research. The questionnaire consisted of one section which is questions where the respondents are given specific limited-alternative responses and asked to choose the one closest to their viewpoints. Questionnaire was in the format of a five-point Likert type scale ranging from 1 (strongly disagree) to 5 (strongly agree). This part covers all the aspects of the conceptual model and measured the items of trust, commitment, two-way communication and conflict handling, and the perceptions of customers on the CRM strategies of insurance companies and their influence on customer loyalty. A number of quantitative and qualitative methods, including Correlation analysis and Regression were used to analyse the data using the SPSS (version 17) software. The results indicate that all four CRM strategies used in insurance industry contribute to enhance the loyalty of their consumers.

Table indicates that the correlation between the different variables tested is significant, all above the 0.01 level. The Spearman rank correlation coefficient was used in this study. The Spearman rank correlation coefficient, if there are no ties, the Pearson correlation coefficient is when the data values are replaced by ranks. When utilizing the Spearman correlation coefficient, the actual values of the two variables do not have to be linearly related, but their ranks do. Strong correlation between the different variables is good, but if high, may also be an indication that the researcher is testing the same variable in different ways. From the secondary research conducted it is clear that the different constructs tested are not identical. The primary research was conducted after consulting previous related studies and utilizing the measuring tools developed during those studies, therefore the high correlation.

III. DATA PRESENTATION AND ANALYSIS

A. Correlation between The Independent Variables and CRM

			TRS	COM	TWC	CONF	CRM
Spearman's rho	TRS	Correlation Coefficient	1.000	.439**	.380**	.224*	.652**
		Sig. (2-tailed)	.	.000	.000	.025	.000
		N	100	100	100	100	100
	COM	Correlation Coefficient	.439**	1.000	.434**	.244*	.647**
		Sig. (2-tailed)	.000	.	.000	.014	.000
		N	100	100	100	100	100
	TWC	Correlation Coefficient	.380**	.434**	1.000	.447**	.761**
		Sig. (2-tailed)	.000	.000	.	.000	.000
		N	100	100	100	100	100
	CONF	Correlation Coefficient	.224*	.244*	.447**	1.000	.692**
		Sig. (2-tailed)	.025	.014	.000	.	.000
		N	100	100	100	100	100
	CRM	Correlation Coefficient	.652**	.647**	.761**	.692**	1.000
		Sig. (2-tailed)	.000	.000	.000	.000	.
		N	100	100	100	100	100

\*\* . Correlation is significant at the 0.01 level (2-tailed).

\* . Correlation is significant at the 0.05 level (2-tailed).

B. Correlation between CRM and Customer Loyalty

Correlation between CRM and Customer Loyalty

		CRM	CL
Spearman's rho	Correlation Coefficient	1.000	.460**
	Sig. (2-tailed)	.	.000
	N	100	100
CL	Correlation Coefficient	.460**	1.000
	Sig. (2-tailed)	.000	.
	N	100	100

\*\* . Correlation is significant at the 0.01 level (2-tailed).

The correlation between Customer Relationship Management and Customer Loyalty is 0.460. This is positive association; better CRM tend to have high Customer Loyalty.

C. Influence of The Independent Variables on The Intervening Variable

Multiple regression analysis was performed to assess the relationship between the independent variables (Trust, Commitment, Two-way Communication and Conflict handling) and the intervening variable (CRM).

The researcher relied on a 95% level of confidence, therefore a p-value of less than or equal to 0.05 implies that it is highly unlikely that the results are due to chance alone according to the Independent Sample T-test. This implied that the null hypothesis is rejected and the alternative hypothesis is accepted. The relationship between Trust and CRM is significant at p = 0.000, the relationship between Commitment and CRM is significant at p = 0.000, the relationship between Two-way Communication and CRM is significant at p = 0.000, and the relationship between Conflict handling and CRM is significant at p = 0.000.

When trust is alone account for 54.8% of variation in CRM. Both trust and commitment account 72.9% of variation in CRM. Trust, commitment and two-way communication account for 90.3% of variation in CRM. The full model account 100% of the variation in CRM.

The following hypotheses; H0<sup>1</sup>, which states that there is no relationship between the independent variables and CRM is therefore rejected.

The following alternative hypotheses; H1, which states that there is a relationship between the independent variables and CRM is therefore accepted.

These relationships imply that insurance industry can improve and maintain its relationships between the organization and customers if insurance companies exhibit trustworthy behaviour, shows genuine commitment to service, communicates information to customers efficiently and accurately, thereby also listening to their customers and handling potential and manifested conflicts skilfully.

*D. Influence of The Intervening variable on The Dependent Variable*

Regression analyses were performed to assess the relationship between the intervening variable (CRM) and the dependent variable (Customer Loyalty). This was performed to give effect to research second objective which state:

To investigate the intervening role of CRM on the effect of conflict handling on customer loyalty

The intervening variable (CRM) positively influenced the dependent variable (Customer Loyalty). The relationship between CRM and Customer Loyalty is significant at  $p = 0.000$ .

This relationship implies that if Insurance Companies successfully maintain relationships with its customers, intentional Customer Loyalty will increase.

The hypothesis  $H_0^2$ , which states that there is no relationship between CRM and intentional customer loyalty, is rejected. The hypothesis  $H_2$ , which states that there is a relationship between CRM and intentional customer loyalty, is accepted.

The main findings of the study specify that there is a significant relationship between the perceived trustworthiness, perceived commitment, perceived two-way communication and perceived conflict handling by Insurance Companies and CRM at Insurance Industry. Therefore  $H_1$  is accepted. And  $H_0^1$  is rejected. The empirical findings revealed that there is a significant positive relationship between the intervening variable (CRM) and the dependent variable (customer loyalty). Therefore  $H_0^2$  is rejected and  $H_2$  is accepted.

#### IV. CONCLUSIONS

*A. Trust*

In terms of trust, the study revealed that the majority of customers strongly agree that trust is an important dimension that underpins CRM and their relationship with Insurance Industry. All the variables of the study have high structural correlations. The empirical results indicate a positive relationship between perceived trustworthiness of Insurance industry and CRM at Insurance Industry in Sri Lanka. Therefore the hypothesis

$H_1$  is partially accepted. In other words, if the trustworthiness of Insurance Industry increased, CRM at Insurance Industry would also increase. Financial matters are important to people, they want to know that their and their dependents' future is secure should an unplanned future event take place that could make them disabled or force their dependents to fulfil financial obligations after their death, therefore customers desire to trust. This specifically indicates that employees of Insurance Industry working at the Customer Link-in-Centres, with whom clients directly interact, should show respect to customers and be honest and truthful in their dealings with customers.

*B. Commitment*

Commitment refers to the belief by both parties that the relationship is worth working on to ensure it endures indefinitely.

The majority of customers strongly agree that commitment is an important dimension that underpins CRM and their relationship with Insurance Industry. The variables in the study have high structural correlations. The empirical results indicate a positive relationship between the perceived commitment of Insurance Industry to customers and CRM at Insurance Industry in Sri Lanka. Therefore, hypothesis  $H_1$  is partially accepted. Thus, if the commitment of AIA increases, the CRM at Insurance Industry would also increase. Commitment is central to a successful relationship. This indicates that employees working in the Customer Link-in-Centres must display a positive attitude towards customers. The level of CRM can be increased if managers' offer personalized services to customers that suit the customers' needs through the utilization of all the customer information available to Insurance Industry.

*C. Two-way Communication*

The study revealed that the majority of customers strongly agree that two-way communication is an important dimension that underpins CRM and their relationship with Insurance Industry. The empirical results indicate a positive relationship between the perceived two-way communication by Insurance Industry and CRM at Insurance Industry in Sri Lanka. Therefore, hypothesis  $H_1$  is partially accepted. In other words, if the two-way communication increases, CRM will increase. Therefore, if Trust, Commitment and Conflict handling are present, customers require less Two-way Communication to increase CRM. The focus of CRM is on attracting and retaining customers through cooperation, trust, commitment and the sharing of information between the parties in the relationship. In the ongoing relationship with the customer, Insurance Industry is required to communicate with the customer, and the

customer is expected to listen. CRM requires that both parties in a relationship have to communicate with each other. Two-way communication is important within the CRM process, since customers want to be heard and not just promoted to.

#### D. Conflict Handling

In terms of conflict handling, the study revealed that the majority of customers agree that conflict handling is an important dimension that underpins CRM and their relationship with Insurance Industry. CRM can only lead to customer loyalty if the organization has a service recovery system that allows the organization to deal with unsatisfied customers and assist the employees of the organization with complaint-handling techniques. The variables in the study have structural correlations. The empirical results indicate a positive relationship between perceived conflict handling and CRM at Insurance Industry in Sri Lanka. Therefore hypothesis H1 is partially accepted. In other words, if conflict handling increases CRM at Insurance Industry will also increase. Customers usually do not understand complicated financial transactions and rely on Insurance Industry to ensure that all transactions impacting their policies are correctly processed. Should a problem arise, customers expect to swiftly correct the problem, thereby ensuring that the customer does not suffer any economic hardship as a result of the problem. This specifically indicates that employees who work in the Customer Link-in-Centres should apologize to customers when problems occur, and they should keep the customers informed as to what action has been taken to resolve the problems. The employees should constantly keep the customer informed of progress until the problem has been resolved.

#### E. Relationship between The Intervening Variable, CRM, and The Dependent Variable, Customer Loyalty

The empirical results indicate a positive relationship between CRM and intentional customer loyalty at Insurance Industry in Sri Lanka. The study is consistent that CRM is based on an organization's effort to develop long-term, mutually beneficial links with customers. Therefore, hypothesis H2 is accepted. In other words, if CRM at Insurance Industry increases customer loyalty at Insurance Industry will also increase. More specifically, one unit increase in CRM at Insurance Industry will increase customer loyalty with 27.3%. This indicates that if Insurance Industry has high quality relationships with customers it will end up with more loyal customers.

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