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The Effect of Satisfaction and Positive Word of Mouth on Customer Loyalty in the Life Insurance: A Study for Hanoi

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Abstract

Customer loyalty has been recognized as an important source of sustainable competitive advantage in customer retention, acquisition, and long-term customer relationships. In the insurance sector, Srivastava and Rai (2013) ^[35] argues that customer retention is very important for life insurance companies as a long-term association with customers leads to instances of cross-selling and the intention of more positive recommendations. Financial services in general and

insurance services in particular are intangible and highly competitive due to being easily imitated, so loyalty becomes even more important (Alrubaiee, 2012) ^[2]. Accordingly, this study aims to examine the relationship between customer satisfaction and loyalty and positive word of mouth in the insurance sector to provide policy suggestions for life insurance businesses' longevity in the current context.

Keywords: Satisfaction, Word of Mouth, Loyalty, Life Insurance

JED Code: G00, G02, G22

1. Introduction

Customer satisfaction has long been recognized as critical to success and survival in today's competitive marketplace. Considerable research has been conducted on this concept. While there is a broad consensus that understanding what contributes to customer satisfaction can be key to achieving competitive advantage, a literature review suggests that, theoretically, customer satisfaction is a complicated issue to define and operationalize, especially concerning perceived service quality. Accordingly, satisfaction by default depends on experience as customers rate their satisfaction or dissatisfaction after each service use. Customer Satisfaction is related to the outcome of a process; however, customer loyalty is related to a relationship. Customer loyalty does not happen immediately but over a long process, but customer satisfaction can happen immediately following a successful process. Loyalty can have a negative process (Botes, 2008) ^[6].

In the highly competitive insurance market, getting new customers is difficult, so life insurance companies have made efforts to increase customer loyalty through existing customers. Research by Rai and Srivastava (2012) ^[27] show that acquiring a new customer costs five times more than keeping an existing one. Reichheld and Schefter (2000) ^[30] note that "customer loyalty" refers to the trust held by maintaining relationships with warranties. Therefore, companies should strive to achieve the full profit potential of each customer relationship. The nature of repurchase intention is very important for insurance companies (Hellier *et al.*, 2003) ^[16]. For example, customer loyalty can also reduce costs and increase profits, as the cost of recruiting a new customer is five times the cost of retaining an existing customer (Bowen and Chen, 2001) ^[7]. Therefore, product or service providers can increase profits and reduce costs as long as they can retain customers and stimulate their repurchase intention (Kuo *et al.*, 2013) ^[21].

Huntley (2006) ^[18] found that when relationship quality is high, customers are more willing to recommend the salesperson's products to colleagues, and they will buy more from the salesperson. Maintaining high-quality relationships increases customer satisfaction, is willing to recommend products, and has long-term relationships with sales staff (Chen and Wang, 2016) ^[9]; (Chen and Mau, 2009) ^[10]. This result demonstrates the role of positive word of mouth in customer loyalty in the life insurance context. Meanwhile, Guillen *et al.* (2008) ^[14] note that the number of empirical studies on customer loyalty in the insurance sector is low. Accordingly, this study aims to examine the relationship between customer satisfaction and loyalty and positive

word of mouth in the insurance sector to provide policy suggestions for life insurance businesses' longevity in the current context.

2. Literature Review

Loyalty

Customer loyalty is important in maintaining and increasing sales (Seock and Lin, 2011, Agrawal *et al.*, 2012) [32, 1]. The concept of loyalty has a similar definition to commitment (Wang and Wu, 2012) [37]. Customer loyalty includes the behavioral aspect of repurchase intention and the attitudinal aspect of willingness to recommend purchase, known as positive word of mouth (Berger and Schwartz, 2011) [5]. Life insurance companies aim to ensure their marketing efforts create favorable behavioral outcomes. Customer loyalty in business has long been considered a critical behavioral outcome (Hennig-Thurau *et al.*, 2005) [17]. Customer loyalty is often expressed in terms of two behavioral outcomes (Chen and Cheng, 2012) [8]: (1) repurchase intention and (2) willingness to recommend. In this study, customer loyalty customer is conceptualized to include repurchase intention and willingness to recommend (sometimes defined as word of mouth) (Rajaobelina and Bergeron, 2009) [29].

Loyalty in insurance services can be understood as a psychological construct formed by sustained customer satisfaction coupled with an emotional attachment to the leading provider service to a state of readiness and always concerning priority, sponsorship, and premium.

Satisfaction

Customer satisfaction results from positive experiences when using a product or service (Kim and Han, 2008) [20], and it has been defined in many different ways. It can also be stated as an emotional response to what was anticipated by a customer and what they received. Customer satisfaction results from a customer's perception of purchasing a good or service that the performance of a service exceeds expectations. To the extent that literature exists, there are two approaches related to consumer satisfaction: 'transaction-specific satisfaction' and 'cumulative satisfaction.' Customer satisfaction reflects an emotional response based on emotional and experiential expectations resulting from the purchase behavior of a particular product or service (Roy *et al.*, 2009) [31]. Another concept is that established by researchers such as Anderson *et al.* (1994), Garbarino and Johnson (1999) [3, 12], and Mittal *et al.* (1999) [25] who perceive satisfaction in terms of a consumer's total cumulative experiences with a company, product, or service. This definition implies that satisfaction can be determined by the difference a consumer perceives between expectations and the actual outcome of a transaction (Anderson and Sullivan, 1993) [4]. Therefore, satisfaction can be defined as a perception derived from comparing an experience with associated expectations at the customer's expense (Edvardsson *et al.*, 2000) [11].

Word of Mouth

Word of mouth (WOM) is the spread of information to those who have no commercial intention to the recipient through verbal communication (Lin and Lu, 2010) [22]. WOM is defined as the non-commercial and informal sharing of information between people about a brand, product, or

service. WOM involves face-to-face communication (Godes and Mayzlin, 2004) [13] and is considered the most helpful method of communication (McDonald and Alpert, 1999) [24]. The pioneering research of Verlegh and Moldovan (2008) [36] found that WOM is an important marketing source for household and food products. It provides a way of sharing information and helps promote products at the initial distribution stage. According to Katz *et al.* (2017) [19] customers acquired through WOM are more loyal than those acquired through traditional marketing. Research by Martensen and Grønholdt (2016) [23] shows the difference between positive and negative word of mouth. Positive speech enhances service facilitation; Therefore, it can increase purchase intention. Positive word of mouth significantly enhances consumers' positive emotions toward the service but cannot significantly reduce consumers' negative emotions. Negative word of mouth has the opposite effect. Accordingly, this study only examines aspects of positive word of mouth.

3. Methodology

Based on an overview of previous studies, this study examines the relationship between customer loyalty to life insurance products in Vietnam under the impact of satisfaction and traditional value word of mouth through surveys of current customers at customer conferences of life insurance companies. The survey was conducted with 250 questionnaires collected, but only 246 questionnaires met the requirements. The questionnaire was designed based on the theories introduced in the literature review. It includes 12 observed variables with a 5-point Likert scale. All items used in each section were adopted from validated scales of previous studies by Minta (2018), (Rai and Srivastava, 2013) [25, 27]. Data collected through the survey was processed using SPSS software, coded, cleaned, and then analyzed for correlation.

4. Results

Descriptive Analysis

The gender ratio between male and female in the survey is respectively 48.5% and 51.5%, in which the number of respondents aged from 35 to 40 years old accounted for the largest proportion; 41.2 % of respondents have a university degree. This shows the trend where the life insurance products are being purchased by more educated and knowledgeable people, who mainly have an average income from 10 to 20 million VND.

Cronbach's Alpha-Reliability

In order to conduct the reliability test, Cronbach's Alpha is used as the most popular and effective tool in SPSS analysis (Hair *et al.*, 2010) [15]. In this research, the Cronbach's Alpha test is applied for one dependent variable and three independent variables. Table 1 demonstrates the result of Cronbach's Alpha test. Hair *et al.* (2010) [15] also note that the Cronbach's Alpha result should be equal to or higher than 0.7 (≥ 0.7) to be reliable enough for research. The Cronbach's Alpha results in Table 1 all meet these standard requirements, which means that every item in the questionnaire has a good level of reliability and can be accepted to use for this research.

Table 1: Cronbach’s Alpha Analysis

Variables and coding	Cronbach’s Alpha	No. of items
Loyalty (LAT)	0.889	4
Worth of mouth (WOM)	0.933	4
Customer satisfaction (CS)	0.833	4

KMO and Barlett’s Test

In this research, the KMO and Barlett’s Test for independent variables is conducted as the result is illustrated in the Table 2. As shown, the KMO value is 0.873 ($0.5 < 0.873 < 1$) and the sig. value is 0.000 (< 0.05). Bên cạnh đó the KMO and Barlett’s Test for dependent variables is 0.825 ($0.5 < 0.873 < 1$) and the sig. value is 0.000 (< 0.05). That means these values satisfied the conditions in the study (Hair *et al.*, 2010) [15]. In addition, after implementing the rotation matrix, we got the followings: every determinant with factor load > 0.5 , Eigenvalues is $1.473 > 1$, and the Variance explained = 75.115 %. It demonstrates that the factor analysis of the research data is appropriate.

Table 2: KMO and Bartlett's Test

Kaiser-Meyer-Olkin Measure of Sampling Adequacy.		0.873
Bartlett's Test of Sphericity	Approx. Chi-Square	1283.335
	Df	28
	Sig.	0.000
Total variance Explained		75.115
Total Eigenvalues		1.473

Correlations

The results of Pearson correlation analysis show a strong linear correlation between the dependent and independent variables of the model (Hair *et al.*, 2010) [15]. The results show that both positive word of mouth and satisfaction have a statistically significant linear correlation with customer loyalty at correlation levels of 0.582 and 0.351, respectively. In particular, positive word of mouth tends to have a stronger impact on customer loyalty instead of customer satisfaction. In addition, customer satisfaction and positive word of mouth also have a quite strong relationship with a statistically significant correlation coefficient at the 0.521 level. Detailed results are shown in the following table:

Table 3: The results of correlations

		LAT	CS	WOM
LAT	Pearson Correlation	1	.351**	.582**
	Sig. (2-tailed)		.000	.000
	N	246	246	246
CS	Pearson Correlation	.351**	1	.521**
	Sig. (2-tailed)	.000		.000
	N	246	246	246
WOM	Pearson Correlation	.582**	.521**	1
	Sig. (2-tailed)	.000	.000	
	N	246	246	246

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

5. Discussion

The results of this study are consistent with previous studies on customer loyalty in the life insurance sector. Based on empirical analysis, it has been proven that both satisfaction and positive word of mouth have an impact on loyalty. The results are also consistent with the research of Singh and Sirdeshmukh (2000) [33], and Sirdeshmukh *et al.* (2002) [35]. However, the research results also show that the difference in the impact of positive word of mouth is stronger than

satisfaction on customer loyalty in the life insurance sector. This result can be explained by the fact that life insurance products have a long-term (5–10 years or longer). Therefore, there is a certain delay in enjoying benefits and customer care services. Therefore, customers' initial contact with insurance businesses is mainly based on contract consulting relationships, premium payment, and risk management. This leads to the perceived service quality being unclear, so satisfaction is not recorded.

Meanwhile, in the media landscape, where social networks are increasingly developing, word-of-mouth information has a stronger level of influence and trust than traditional forms of advertising. Therefore, customers who need experience with insurance services tend to rely on word-of-mouth information to make behavioral decisions. In addition, research also shows that there is a positive relationship between satisfaction and positive word of mouth. Therefore, although satisfaction has a low direct impact, positive word of mouth can increase customer loyalty. Accordingly, insurance businesses still need to improve service quality to increase customer satisfaction, promoting positive word-of-mouth behavior. Therefore, these findings continue to suggest improvements in customer service policies to increase customer satisfaction, including:

Firstly, businesses need to improve the quality and efficiency of their distribution channels. It can be said that in the field of life insurance. However, technology has been applied in consulting and introducing products, and it is still mainly intermediaries such as agents and insurance brokers who market and sell life insurance products. This is an effective support force for customers in choosing and designing suitable products. With the intangible and complex nature of the product, it is difficult for customers to understand its benefits and effectiveness fully. In addition, the time to buy and consume products is still being determined and has a relatively significant delay. This leads to a situation where product satisfaction is often measured through customer perception of the service quality of the distribution channel. Therefore, it is necessary to improve the quality of distribution channels through training and supervision activities to indirectly improve customer satisfaction, thereby increasing customer loyalty to products and services company service.

In addition, to increase the impact of positive word of mouth, insurance businesses should develop communication policies in conjunction with KOLs (Key Opinion Leaders) to increase the influence of these objects on customers, thereby promoting customer loyalty.

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