“Analysis of effect of customer’s repurchase and customer’s recommendations to others on loyalty of customer in insurance industry” [Case study: Moalem Insurance Company]

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Abstract

In order to acquire dominant position in the market in today highly competitive world, it is crucially important to present high-quality products to the customers so that it can be called as a leveler to create stable competitive advantage. Loyalty of customer is not assumed as a right but an advantage to be acquired. This article is intended to analyze the effect of customer’s repurchase and customer’s recommendation to other on loyalty of customer in insurance industry (Moalem Insurance Company). This study is a survey and the questionnaire has been utilized as tool for data collection and 10 experts in insurance industry were designated as research sample. Analytical Hierarchy Process (AHP) was used for data analysis along with Multiple Criteria Decision Making (MCM) method and upper-Decision software. The results indicated that customer’s recommendation to others had the highest effect on loyalty of customer and then variable of customer’s repurchase had the lowest impact on loyalty of customer.

Keywords: Loyalty of customer, Customer’s recommendation to others, Customer’s repurchase.
Introduction

Today, many insurance companies are exposed to fully-dynamic environment. All of insurance companies, whether big-size or small-size enterprises, have considered attraction and retention of commercial customers on top of their plans with respect to accelerated changes in marketplace situations and some of the important factors for achievement of insurance companies include presentation of quick and proper services and creating satisfaction for customers toward the received services from the company. Those organizations in which loyalty to customer is addressed, they assume customers as valuable assets for organization and they ask all personnel to try to keep customers satisfied and thus to become loyal dynamically and remain loyal to them. Attraction of customer’s satisfaction and creation of loyalty are assumed as the paramount task for organizations and institutions.

Nowadays, identifying and prediction of customers’ requirements is necessary for economic enterprises in order to acquire competitive advantage and market division. Customer is deemed as key and pivotal factor in improvement of organizational agility and for orientation of all objective and strategies and their resources are focused on attraction and retention of customer. Retention and improvement of loyalty of customers has been turned into strategic challenge of business for the enterprises which are concerned with protection and development of their competitive position. Thus, loyalty of customers is assumed as a key for commercial achievement of an organization and following to improvement in loyalty of customers, one can expect to enhance market share and rate of profitability of economic enterprise. Perception of market will lead to long-term interest for economic enterprises by planning and taking appropriate strategies to make customers loyal and increase in rate of their loyalty (Hamidi Zadeh et al, 2009).

Loyalty does not emerge automatically; of course and it is under influence of several factors. The studies have shown that quality of services, customer’s satisfaction, image of company, trust, and perceived value of services and or products of the given enterprise may impact on loyalty of customer (Wieringa et al, 2007; Johns et al, 2004).

Following to increase in number of private insurance companies in Iran, competition has been increased to acquire higher market share and customer’s loyalty is supposed as competitive advantage for them but unfortunately these factors and rate of their importance have not been adequately addressed. Therefore with respect to the aforesaid cases, the present research is intended to give answer to this question that what is the importance of impact of customer’s repurchase and customer’s recommendation to others on loyalty of customer in insurance industry? Thus, improvement of customers’ loyalty in insurance industry and thus rise of their profitability is the objective of this study.

It can be implied about importance and necessity of this study that the organizations have perceived today any customer has specific value and they should campaign for making customer committed and for creating sense of attachment in them and profitability and stability for the organization. We hope the result of this study to contribute to insurance industry in presentation of information to directors of insurance companies and preparation of suitable strategies and supportive plans of Central Insurance Company toward improvement of insurance services by insurance companies according to value-driven utilities of customers.
History and theoretical bases of research

Definition of loyalty and the governing theoretical bases

Oliver (1997): Loyalty denotes customer’s deep commitment for the repeated reference or purchase of a certain commodity or service in the future despite of the existing marketing effects and efforts by rivals to change in customer’s purchase behavior.

Oliver (1990): He suggests that developing process of customer’s loyalty follows cognitive loyalty pattern, emotional loyalty, accrued loyalty, and functional loyalty. At first step, consumers prefer a certain brand to other brands by assessment of quality of services and at second phase experience and satisfaction is increased for interest in product and brand. At third step, commitment and tendency is created to brand for repurchase and at the last stage intention and tendency are turned into purchase and action (McCain et al, 2005: 466). However, Oliver (1999) expressed that intention is not always converted into action and repurchase should be accompanied to eager and enthusiasm for such conversion. The four-step loyalty pattern is sequential and its intensity is increased consciously and purposively at any step (Blut et al, 2007: 727). According to attitude of Chaudhuri and Halbrook (2001), there are two approaches in loyalty including behavioral loyalty (customers’ tendency to repurchase and keeping relationship with serviced providers) and attitudinal loyalty (rate of psychological attachment of customers and attitudinal support from service providers) (Raoren and Miller, 2007: 23).

Sopanen (1996) has identified 6 types of loyalty within a general framework:

**Exclusive loyalty:** (when there is no alternative for substitution)

**Loyalty due to laziness:** (The customers do not actively look for alternative.)

**Loyalty to comfort:** (Customers are loyal only due to situation and conditions.)

**Loyalty to price:** (Loyalty to the lowest price)

**Stimulated loyalty:** (Loyalty due to rewarding plans)

**Emotional loyalty:** (When customers are influenced by some factors such as brand) (Turner and Wilson, 2006: 95)

Customer’s loyalty model (Adreassen and Lindestad, 1998)

**Model interpretation:** According to studies of Adreassen and Lindestad (1998), loyalty of customer was dependent variable and satisfaction, perceived value, perceived quality, and image of company were independent variables (Fig 1). The main theme of present research and the given conceptual model is derived from the following model.

![Customer’s loyalty model](Fig 1: Customer’s loyalty model- Adreassen and Lindestad (1998))
Concept of model dimensions

**Image of company**: I comprises of perception and subjectivity of customers who have referred to trade name and or organization about brand, products, services, and organization (Nguyen and Leblanc, 2008).

**Perceived quality**: It is the rate of compliance among the perceived performance and customer’s expectations (Aithiyaman, 1997; Bejou et al, 1996).

**Perceived value**: Perception has been defined about quality, social psychology, interests, and money (Bishop, 1984; Velimirovic et al, 2011).

**Customer’s satisfaction**: It refers to sense of joy or disappointment in an individual caused by comparison of a product or perceived performance of services in relation with his/her expectation (Kotler, 2003).

Research history

In a study, Najafi (2012) has examined and interpreted effective factors on loyalty of customer in E-banking among electronic customers of Mellat Bank. The given results indicate that satisfaction and creation of trust in customer are respectively assumed as the foremost effective factors on formation of customer’s loyalty in electronic environment and reputation and perceived value are considered as effective factors on satisfaction. At the same time, reputation and quality of service were supposed as foremost effective factors on customer’s trust.

In his MA thesis titled ‘Identifying effective factors on organizational image and analysis of its impact on customer’s loyalty’, Karimi Amoli (2014) concluded that the variables of physical environment, service levels, communications, perceived value of services by customer, and customer’s expectations were positively and significantly related to organizational image and the organizational image influenced in loyalty of customers.

In their investigation under title of ‘Effective factors on loyalty of the insured parties (case study: Iran Insurance Company)’, Haghighi Kaffash et al (2010) identified and prioritized efficient factors on loyalty of customers of Iran Insurance Company. The results showed that all of the identified factors have been effective on two main parameters of loyalty (repurchased and recommendation to others) among customers of Iran Insurance Company at confidence level 95%.

In their survey with title of ‘Order preference of effective factors on customers’ loyalty using ECSI model’, Haghighi Kaffash and Akbari (2011) prioritized the effective factors on loyalty of customers of Shirin Asal Company. Their findings showed that all of the recognized factors have been effective on two main parameters of loyalty- repurchase and introducing product to others-among consumers of products in Shirin Asal Company at confidence level 95%.

In a study with title of ‘effective factors on customer’s loyalty on E-banking’, Maroofi (2013) concluded that the observed value, perceived quality, trust, and reputation of company were effective on loyalty of customers to E-banking in Iran.

In a study done by Akhtar et al (2013) under title of ‘effective factors on customer’s loyalty in Pakistan’, they came to the result that there was positive relationship among customer’s satisfaction, customer’s relationship, image of product, and reliability with loyalty of customers.
In an investigation with title of ‘effective factors on loyalty of customer in Malaysian Airline Industry’, Johan et al (2014) found that these effective factors were the perceived quality, perceive value, customer’s satisfaction, and image of company based on order preference. According to theoretical bases and the mentioned literature, conceptual model of this study with hierarchical approach is as follows (Fig 2).

**Fig 2: Research conceptual model based on hierarchical approach**

**Materials and method**

*Statistical population and sample size*

The statistical population of this study includes directors and experts from Moalem Insurance Company and whereas Analytic Hierarchical Process (AHP) is a subjective process therefore it does not need to involvement of many experts (Karsak, et al, 2002) and small samples (10 members or smaller) have been studied by researchers in AHP analysis (Chinet al, 2008). The foremost parameters as effective factors on loyalty of customers in insurance industry are explored in this study by polling of ten master experts in insurance industry.

**Methodology**

The current study is assumed as a survey in terms of data collection and it applied in terms of goal and nature of the studied problem and of descriptive type according to methodology.
Information and data collection data:
The related data for theoretical bases and research literature were collected by librarian method and questionnaire is the data collection tool in this study in which researcher has designed this questionnaire based on the existing variables in Adreassen and Lindestad questionnaire and after verification of the given validity and reliability by experts, researcher has executed pairwise comparisons between main criteria based on goal, pairwise comparisons among main criteria together (interactions of main criteria with each other), and also pairwise comparisons between parameters and main criterion.

Validity and reliability of data:
The conceptual and content validities of questionnaire have been confirmed by experts and based on study on subject literature and with respect to Analytic Hierarchy Process (AHP), reliability of data was verified with less than ten percent rate of inconsistency.

Method of data analysis:
AHP technique and Multiple Criteria Decision Making (MCDM) were utilized to analyze data and Super Decision software package was used for this purposed.

Results
Order preference of loyalty factor based on AHP technique
At first step, order preference was determined in this study for effective criteria and sub- criteria on customer’s loyalty in insurance industry. The research criteria and sub-criteria are given in Table 1.

Table 1: The relevant criteria and sub-criteria

<table>
<thead>
<tr>
<th>Symbol</th>
<th>Main criteria</th>
<th>Sub-criteria</th>
<th>Symbol</th>
</tr>
</thead>
<tbody>
<tr>
<td>C1</td>
<td>Customer’s repurchase</td>
<td>Image company</td>
<td>S11</td>
</tr>
<tr>
<td></td>
<td></td>
<td>Trust</td>
<td>S12</td>
</tr>
<tr>
<td></td>
<td></td>
<td>Perceived value</td>
<td>S13</td>
</tr>
<tr>
<td></td>
<td></td>
<td>Perceived quality</td>
<td>S14</td>
</tr>
<tr>
<td></td>
<td></td>
<td>Customer’s satisfaction</td>
<td>S15</td>
</tr>
<tr>
<td>C2</td>
<td>Customer’s recommendation to</td>
<td>Image company</td>
<td>S21</td>
</tr>
<tr>
<td></td>
<td>others</td>
<td>Trust</td>
<td>S22</td>
</tr>
<tr>
<td></td>
<td></td>
<td>Perceived value</td>
<td>S23</td>
</tr>
<tr>
<td></td>
<td></td>
<td>Perceived quality</td>
<td>S24</td>
</tr>
<tr>
<td></td>
<td></td>
<td>Customer’s satisfaction</td>
<td>S25</td>
</tr>
<tr>
<td>C3</td>
<td>Interest in insurance brand</td>
<td>Image company</td>
<td>S31</td>
</tr>
<tr>
<td></td>
<td></td>
<td>Trust</td>
<td>S32</td>
</tr>
<tr>
<td></td>
<td></td>
<td>Perceived value</td>
<td>S33</td>
</tr>
<tr>
<td></td>
<td></td>
<td>Perceived quality</td>
<td>S34</td>
</tr>
<tr>
<td></td>
<td></td>
<td>Customer’s satisfaction</td>
<td>S35</td>
</tr>
</tbody>
</table>

And a schematic of criteria and symbols is seen in Fig 3.
Analytical Hierarchy Process (AHP) was used to determine order-preference for performance factors. The analysis trend is as follows:

1. Pairwise comparisons of main criteria based on goal and determination of weight for main criteria
2. Pair comparison of sub-criteria for any criterion and determination of weight for sub criteria of any cluster
3. Multiplication of sub-criteria to the relevant criterion weight and determination of final weight for sub-criteria

Nine-point intensity scale of importance (Saaty, 1996) was utilized for pairwise comparison of elements. Saaty nine-point scale has been introduced by Thomas Saaty as founder of AHP theory.

**Determination of preference of main factors based on goal**

At first step, main criteria were compared by pairwise comparison. The pairwise comparison is very simple and all elements of any cluster should be compared pair-to-pair. Therefore if there are $n$ elements in a cluster, \( \frac{n(n-1)}{2} \) comparisons will be done. Whereas there are three criteria thus number of conducted comparisons will be as follows:

\[
\frac{n(n-1)}{2} = \frac{3(3-1)}{2} = 3
\]

Therefore, 1 pairwise comparison has been executed according to attitude of a group of experts and attitude of experts has been integrated using technique of geometric mean. The pairwise comparison matrix resulting from integration experts’ view is displayed in Table 2.

**Table 2:** The pairwise comparison matrix resulting from integration experts’ view to determine preference of main criteria

<table>
<thead>
<tr>
<th></th>
<th>Customer’s repurchase</th>
<th>Customer’s recommendation to others</th>
<th>Interest in insurance brand</th>
</tr>
</thead>
<tbody>
<tr>
<td>Customer’s repurchase</td>
<td>1</td>
<td>0.692</td>
<td>0.732</td>
</tr>
</tbody>
</table>
Calculation of geometric mean in any row is the next step to determine weight of criteria:

$$\pi_1 = \sqrt[3]{1 \times 0.692 \times 0.732} = 0.797$$

Consequently, geometric mean is calculated for other rows similarly.

$$\pi_2 = 0.852$$

$$\pi_3 = 1.473$$

Then, sum of geometric mean is calculated for all rows.

$$\sum_{i=1}^{m} \pi_i = 0.797 + 0.852 + 1.473 = 3.121$$

The amount of normal weight is derived by dividing geometric mean of any row to sum of geometric mean of rows and the product is called eigenvector. Summary of results is given in Table 3.

### Table 3: Determination of preference of main criteria

<table>
<thead>
<tr>
<th></th>
<th>Customer’s repurchase</th>
<th>Customer’s recommendation to others</th>
<th>Geometric mean</th>
<th>Eigenvector</th>
</tr>
</thead>
<tbody>
<tr>
<td>Customer’s repurchase</td>
<td>1</td>
<td>0.692</td>
<td>0.832</td>
<td>0.361</td>
</tr>
<tr>
<td>Customer’s recommendation to others</td>
<td>1.446</td>
<td>1</td>
<td>1.202</td>
<td>0.591</td>
</tr>
</tbody>
</table>

Based on table of eigenvector, preference of main criteria will be W1.

$$W_1 = \begin{pmatrix}
0.225 \\
0.273 \\
0.472
\end{pmatrix}$$

Based on the given eigenvector:

- a) The criterion of factors of interest in insurance brand has the highest preference with normal weight 0.472.
- b) The criterion of customer’s recommendation to others is placed at middle preference with normal weight 0.273.
- c) Criterion of customer’s repurchase has the lowest preference with normal weight 0.255.
The rate of inconsistency among conducted comparisons is derived 0.088 that is smaller than 0.1 and therefore the conducted comparisons may be trusted.

- **Comparison and determination of preference of sub-criteria**

At the second step of AHP technique, the group of the related sub-criteria to any criterion has been compared in pairs in the relevant cluster and order preference was determined for them. The summary of result of pairwise comparisons has been separated for sub-criteria in any cluster.

**1- Determination of order-preference for sub-criteria of customer’s repurchase**

The sub-criteria of customer’s repurchase are as follows: Customer’s satisfaction, perceived quality, perceived value, trust, and image of company. Also here comment of a group of experts has been utilized. Attitude of 10 experts was collected. Whereas there are five sub-criteria thus number of conducted comparisons is as follows:

\[
\frac{n(n - 1)}{2} = \frac{5(5 - 1)}{2} = 10
\]

The conducted calculations are given for determination of order-preference of sub-criteria in Table 4.

**Table 4: Determination of order-preference for sub-criteria of customer’s repurchase**

<table>
<thead>
<tr>
<th></th>
<th>Image of company</th>
<th>Trust</th>
<th>Perceived value</th>
<th>Perceived quality</th>
<th>Customer’s satisfaction</th>
<th>Geometric mean</th>
<th>Eigenvector</th>
</tr>
</thead>
<tbody>
<tr>
<td>Image of company</td>
<td>1</td>
<td>0.562</td>
<td>1.286</td>
<td>1.636</td>
<td>1.035</td>
<td>1.254</td>
<td>0.205</td>
</tr>
<tr>
<td>Trust</td>
<td>1.779</td>
<td>1</td>
<td>0.727</td>
<td>1.582</td>
<td>1.342</td>
<td>1.312</td>
<td>0.215</td>
</tr>
<tr>
<td>Perceived value</td>
<td>0.777</td>
<td>1.376</td>
<td>1.082</td>
<td>0.590</td>
<td>0.777</td>
<td>1.058</td>
<td>0.173</td>
</tr>
<tr>
<td>Perceived quality</td>
<td>0.611</td>
<td>0.632</td>
<td>0.632</td>
<td>1.387</td>
<td>0.387</td>
<td>0.677</td>
<td>0.111</td>
</tr>
<tr>
<td>Customer’s</td>
<td>0.966</td>
<td>0.745</td>
<td>1.695</td>
<td>2.585</td>
<td>1</td>
<td>1.148</td>
<td>0.188</td>
</tr>
</tbody>
</table>
According to the given eigenvalue:
* Variable of trust has the highest importance with weight 0.215.
* Image of company (weight: 0.205) is placed at the second preference.
* Customer’s satisfaction (weight: 0.188) is at third priority.
* Variable of perceived value (weight: 0.173) has the fourth preference.
* The perceived quality (0.111) is at fifth preference.

The rate of inconsistency was derived 0.051 among conducted comparisons where it is smaller than 0.1 and therefore the conducted comparisons may be trusted.

2- **Determination of preference for sub-criteria of customer’s recommendation to others**

The sub-criteria of customer’s recommendation to others are as follows: Customer’s satisfaction, perceived quality, perceived value, trust, and image of company. The results of their order-preference are given in Table (5).

**Table 5:** Determination of order preference for sub-criteria of customer’s recommendation to others

<table>
<thead>
<tr>
<th></th>
<th>Image of company</th>
<th>Trust</th>
<th>Perceived value</th>
<th>Perceived quality</th>
<th>Customer’s satisfaction</th>
<th>Geometric mean</th>
<th>Eigenvector</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Image of company</strong></td>
<td>1</td>
<td>1.669</td>
<td>1.726</td>
<td>1.551</td>
<td>1.013</td>
<td>1.353</td>
<td>0.263</td>
</tr>
</tbody>
</table>
Based on the given eigenvector:
* Variable of image of company (weight: 0.263) has the highest importance.
* The perceived value (weight: 0.252) is placed at the second position of importance.
* The customer satisfaction (weight: 0.178) has the third preference.
* Variable of trust (weight: 0.157) is placed at fourth priority.
* The perceived quality (weight: 0.150) enjoys the least importance.

Similarly, coefficient of inconsistency among the conducted comparisons is also derived 0.062 and this is smaller than 0.1. Therefore it may be trusted in these results.

**Discussion and conclusion**

- **The results from preference of research main criterion**
  Among the main factors of variables of customer’s repurchase and customer’s recommendation to other which are effective on loyalty of customer in insurance industry, variable of customer’s recommendation to others (normal weight: 0.273) is ranked at first position and variable of customer’s repurchase (normal weight (0.255) is placed at second preference.

- **The results from preference of sub-criteria of customer’s repurchase**
  With respect to results of analysis, sub-criteria of customer’s repurchase are respectively based on following order: Variables of trust (weight: 0.215), image of company (0.205), customer’s satisfaction (weight: 0.178), perceived value (weight: 0.152), perceived quality (weight: 0.150), and the variable of image of company (weight: 0.263) has the highest importance.
satisfaction (0.188), perceived value (0.173), and perceived quality (0.111) are placed according to attitude of researcher this is due to this fact that after the first purchase by customer what it may increase customer’s motive and tendency for repeated purchase more than ever is the trust to which customer has achieved after first purchase.

- **The results from determination of preference of sub-criteria of customer’s recommendation to others**

The customer’s recommendation to others sub-criteria are respectively in this study as follows: Variables of image of company (weight: 0.263), perceived value (0.252), customer’s satisfaction (0.178), trust (0.175), and perceived quality (0.150). According to viewpoint of researcher, this is because of this point that in order to recommend and order and promote a product or brand by customer to others, the remaining image and perception of given product in customer’s mind and thought is more important for expression and recommendation and promotion of that product than other sub-criteria.

**Conclusion**

This study looked for analysis on order preference of main criteria of customer’s repurchase and customer’s recommendation to others and sub-criteria in loyalty of customer in insurance industry where the findings indicate that among main criteria, customer’s recommendation to others is placed at first preference and customer’s repurchase is ranked at the second position. Also, the related sub-criteria of customer’s recommendation to others are respectively as follows: Image of company, perceived value, customer’s satisfaction, trust, and perceived quality. At the same time, the related sub-criteria to customer’s repurchase are ranked respectively as follows: Trust, image of company, customer’s satisfaction, perceived value, and perceived quality.
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