

ASSESSING THE IMPACT OF CUSTOMER RELATIONSHIP MANAGEMENT PRACTICES ON CUSTOMER LOYALTY IN INSURANCE SECTOR

Neetu Andotra*, Deepti Abrol**

Abstract: *Insurance sector in India seems to be dynamic in nature. During past few decades, there was a revolutionary change witnessing segments of speedy growth but in the current scenario, insurance industry in India is serving with a number of new national and international players facing escalating antagonism which leads to sluggish growth, increasing cost, etc. To continue its existence in a competitive business situation and achieve advantageous growth for long term sustainability, insurance industry needs to focus on building and maintaining good relationships with their esteemed customers. The main objective of this research paper is to assess the impact of various Customer Relationship Management (CRM) practices on customer loyalty in insurance sector. The responses of 224 customers from four public general insurance companies operating in Jammu district of J&K state are considered for this study. Based on the findings of the empirical investigation using statistical tools namely, exploratory factor analysis, confirmatory factor analysis, and structural equation modeling, the study has revealed that there is a significant and positive impact of CRM practices on customer loyalty. Further, all the dimensions of CRM significantly affects customer loyalty. Only four CRM practices were considered in the present study so the future research should focus on rest of the practices. This paper encourages managers of insurance companies to focus their attention on customer redressal machinery in order to ensure long term relationship with their customers.*

Keywords: CRM, Customer Loyalty, Conflict Handling, Communication

INTRODUCTION

From past several years, the international insurance scenario is changing drastically emphasized by environmental changes, innovative technologies, economic fluctuations, changeable market trends, cut throat competition, and more conscious customers. Post liberalisation of insurance industry in India has seen a radical shift from monopolistic control of public sector undertakings to globally competitive market centric players including multinationals and domestic private firms. Customers come to the focal point of all the business activities in today's fast moving market place with more savvy customers and rising competitions (Chopra, Arora, & Kumar, 2012). Most of the organisations are putting emphasis on generating new products or services the specialised products and services, investigating the customer needs and wants, meeting the gap between customer needs and expectations by shifting from a product-centric to customer-driven enterprise for attaining sustainable competitive advantage and enhancing organisational performance (Berndt, Herbst, & Roux, 2005; Zulkifli & Tahir, 2012). Customer Relationship

Management (CRM) plays an indispensable role in success of any organisation as it represents the way customer's expectations are met and adopted the more effective and efficient practices of achieving the prime organisational goal of customer excellence (Amoaka, Arthur, Bandoh & Katah, 2012). However, incorporating the Customer Relationship Management (CRM) practices into the service oriented organisations is an essential way to stay competitive (Sharma, Goyal, & Mittal, 2007). CRM as an important tool for the organisations to substitute the long-established 'four Ps' of marketing (product, price, place, and promotion) and it also symbolizes the organisation's ability to create and maintain long term sustainable relationship with its customers for maximizing company's profitability (Oztaysi, Sezgin, & Ozok, 2011). Customer relationships have become for many corporations a broad strategy to procure new customers, retain profitable customer's further team up with esteemed customers to create in achieving greater value for both company and its customers. The scope of CRM is broadened and is extended into many spheres, from just a marketing tool to strategic decision making process and from academic standpoint; CRM is gaining significance as

* Professor, Department of Commerce, University of Jammu, Jammu & Kashmir, India. Email: neetu.bipan@rediffmail.com

** Doctoral Research Scholar, Department of Commerce, University of Jammu, Jammu & Kashmir, India. Email: abrol.deepti@rediffmail.com

a well recognised, diverse discipline and impeccable part of marketing management. Thus, this paper firstly reviews the available existing literature related to CRM and customer loyalty and then investigates the impact of CRM practices on the important CRM outcome namely, customer loyalty from customer's perspective in insurance sector.

REVIEW OF LITERATURE

Nowadays, most of the firms in service industry have acknowledged and are moving towards the adoption of CRM practices effectively in acquiring potential customers, enhancing loyalty of the existing customers and optimize their lifetime value. CRM is broadly renowned and widely implemented strategy for managing and nurturing a company's interaction with customers, clients & sales prospects. It involves using technology to organise, automate, and synchronise business process-principally sales activities, but also those for marketing, customer service and technical support. To attain the competitive advantage, customer loyalty is the significant to all the business organisations and it can be achieved through marketing practices especially customer relationship management (Ehigie, 2006). Most of the researchers have revealed that cost of retaining the existing customers is comparatively very less as to acquiring new customers for the service organisations (Ndubisi & Wah, 2005; Zablah, Bellenger, & Johnston, 2004). Ndubisi, Wah, & Ndubisi (2007) insisted that loyalty of the customers can easily be earned by building trust and quality relationship with their esteemed customers and by implementing the effective CRM strategies, namely, communication, commitment, competence, and conflict handling which are directly and indirectly related with customer loyalty. Moreover, it is indicated that communication is the major factor which have significant positive influence on the effectiveness of CRM strategies (Rootman, Tait, & Bosch, 2007; Mithas, Krishnan, & Fornell, 2005) as sharing customer knowledge with stakeholders enables them to define firm's service and its delivery to suit their needs. Lombard (2011) investigated the factors that have an influence on CRM practices in insurance organisation and found that conflict handling exerted a significant positive influence on CRM whereas communication exerted a significant negative influence on CRM. When these particular CRM strategies are implemented, customer loyalty will definitely increase in reality for many service organisations. This in turn will lead to long term business success and increased company profitability. The mediation effect of trust is established between the association of communication, commitment & conflict handling on customer loyalty (Ndubisi *et al.*, 2007). Akbar and Noorjahan (2009) reported a significant and positive relation between trust and customer satisfaction on the one hand and customer loyalty on the other. In addition to the above literature, it has been concluded that customer

satisfaction facilitate customer loyalty in all service organisations. Ouyang (2010) discovered that service quality and customer satisfaction did not have a direct effect on customer loyalty but the mediator effects of trust relations and customer satisfaction is empirically confirmed.

RESEARCH MODEL

Fig. 1 shows the model depicting the impact of CRM practices on customer loyalty.

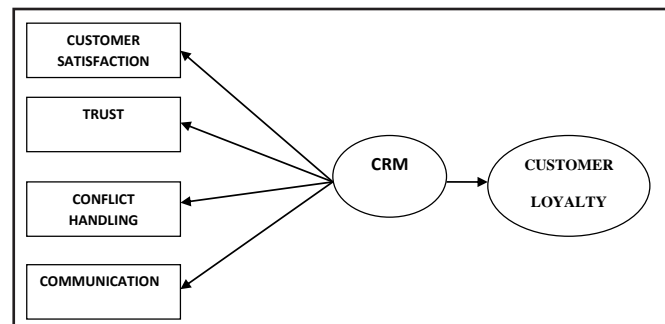


Fig. 1: Conceptual Model of the Study

RESEARCH OBJECTIVES

After taking into consideration the above view, this study aims to investigate the impact of various Customer Relationship Management (CRM) practices namely, customer satisfaction, trust, communication, and conflict handling on customer loyalty in insurance sector.

RESEARCH HYPOTHESES

Based on the literature reviewed for the present study, firstly the following hypotheses are framed and then tested:

- H₁:** CRM practices significantly and positively affect customer loyalty.
- H₂:** Customer satisfaction is significantly and positively related to customer loyalty.
- H₃:** Trust is significantly and positively related to customer loyalty.
- H₄:** Communication is significantly and positively related to customer loyalty.
- H₅:** Conflict handling is significantly and positively related to customer loyalty.

RESEARCH METHODOLOGY

The study is evaluative in nature and assessing the impact of CRM practices namely, customer satisfaction, trust, communication and conflict handling on customer loyalty.

This paper used primary data which were collected through self-designed questionnaire. Questionnaire contains two sections. Demographic profile of the respondents like age, gender, income, etc. is included in the first section of the questionnaire whereas dimensions of CRM (customer satisfaction, trust, communication, and conflict handling) and customer loyalty is included in second section of the questionnaire. All constructs of the model have been measured with several indicators. Further, the indicators that are used to measure the variables have been developed through various literature available shown in Table 1 and subject expert's discussions. Each statement in the questionnaire was based on five point Likert scale that ranges between 5 (strongly agree) and 1 (strongly disagree). Data were collected from the 224 customers of four public general insurance companies (United India Insurance, The Oriental Insurance Co. Ltd., National Insurance Co. Ltd., The New India Insurance, and The New India Assurance Co. Ltd) located in Jammu district of J&K state using convenience sampling method.

Table 1: Dimensions of CRM and Generation of Scale Items

Dimensions	Source Of Input
Customer Satisfaction	Sarlakand Fard (2009); Kubiand Doku (2010); Ouyang (2010); Akbar and Noorjahan (2009)
Trust	Akbar and Noorjahan (2009); Wahab, Noor, and Ali (2009); Bove and Johnson (2006); Ouyang (2010).
Conflict Handling	Lombard (2011); Ndubisi <i>et al.</i> (2007).
Communication	Lombard (2011); Dagger, David, and Ng (2011); Rootman <i>et al.</i> (2007); Ndubisi <i>et al.</i> (2007); Kubi and Doku (2010).
Customer Loyalty	Lombard (2011); Ndubisi <i>et al.</i> (2007); Dagger <i>et al.</i> (2011); Das, Parmar, and Sadanand (2009); Boveand Johnson (2006); Jasola and Shivani (2008).

DATA ANALYSIS

Firstly, analysis was conducted by identifying and deleting the outliers using box plot. As a result 14 responses were deleted. Exploratory factor analysis was performed on various constructs of CRM and customer loyalty. It was carried using principal component and varimax rotation. The statements with factor loading less than 0.5 and Eigen value less than 1.00 were ignored for the subsequent analysis (Hair, Anderson, Tatham, & Black, 2009). The KMO value and Bartlett's test of Sphericity (Chi square values) of each dimension of CRM revealed the sampling adequacy for the factor analysis. The purification was performed separately

on each dimension of the CRM. After purifying the data, 9 items were selected out of 16 items for customer satisfaction, 10 out of 15 items were selected for trust, 13 out of 16 items were selected for communication, and finally for conflict handling 10 items were retained out of 14 items. The loyalty construct comprises 11 items and 8 items are left which are grouped under three factors. To check the relationship between the manifest and latent variables, Confirmatory Factor Analysis (CFA) was carried on the constructs of CRM and customer loyalty. The relative factors emerged of CRM constructs are 4 for customer satisfaction, 5 for trust, 5 for communication, and 4 for conflict handling. Further, three factors emerged for customer loyalty. Some items are deleted because the standardised regression weight (SRW) values are less than .50 which is below the suggested threshold criterion (Hair *et al.*, 2009). In order to test the goodness of fit of the various measurement models, the threshold criterion of various fit indices namely, χ^2 value is less than 5.0, GFI, AGFI, CFI, TLI and NFI values are above or nearer 0.9 are checked. In addition, the prescribed maximum limits values of RMSEA and RMR is less than .08 which is also verified in the models. The models of all the constructs exhibited excellent fit as all the fit indices (χ^2 , GFI, AGFI, CFI, TLI, NFI, RMSEA, and RMR) satisfy the threshold criterion (Table 2). To check the internal consistency in the data collected, Cronbach Alpha (α) has been checked using SPSS statistics and further these values are cross checked in SPSS AMOS by calculating the composite reliability values which are exhibited in Table 3. The values of the reliability indicated good results as the values of Cronbach alpha and composite reliability are according to the satisfactory limits namely, equal to or greater than 0.7. All models are proved to be valid, as average variance extracted (AVE) are above 0.5 (Table 3). The values of the standardised regression weight (SRW) of all the indicators are above 0.50 which establishes the construct validity.

Table 2: Model Summary of Second Order Factor Models

Dimension/ Construct	Chisq/ df	GFI	AGFI	CFI	NFI	TLI	RMSEA	RMR
Satisfaction	1.662	.948	.946	.929	.900	.907	.035	.014
Trust	1.669	.968	.950	.919	.856	.888	.037	.013
Communi- cation	2.405	.939	.935	.918	.840	.816	.051	.015
C o n f l i c t handling	1.117	.977	.958	.944	.916	.926	.012	.011
Loyalty	2.246	.953	.945	.927	.915	.909	.044	.014

Table 3: Data Reliability, Internal Consistency and Validity

Dimension/ Construct	AVE	CR	Alpha values
Trust	0.726	0.796	0.678
Customer satisfaction	0.713	0.742	0.786
Communication	0.863	0.876	0.877
Conflict handling	0.659	0.723	0.843
Customer loyalty	0.732	0.877	0.877

HYPOTHESES TESTING: RELATIONSHIP BETWEEN CRM PRACTICES AND CUSTOMER LOYALTY

In order to test the framed hypotheses namely, the relationship between the observed and latent variables, Structural Equation Model (SEM) was used which is comparatively better than the other regression models but only after confirming the factors through CFA and assessing their validity and reliability. After applying the SEM, we investigated the impact of CRM practices on customer loyalty. The model fitness indices are within the acceptance range namely, CMIN/DF = 2.106, GFI = .983, AGFI = .961, NFI = .901, TLI = .914, CFI = .943, RMR=.014,

and RMSEA = .051. As the results exhibited significant SRW values between CRM practices namely, customer satisfaction, trust, communication & conflict handling on customer loyalty (SRW = 0.87, p = .000), indicating the positive and significant relationship (Fig. 2 and Table 4). Based on the aforesaid values, we accept the first hypotheses (H1), revealing that there is a significant and positive impact of CRM on customer loyalty (Fig. 2). Further, the relationship between satisfaction of the customers and their loyalty also came to be significant (SRW = 0.81, p = .000), representing that when the customers are satisfied with the services of the organisation, they remain loyal towards them (Fig. 3 and Table 4). Thus, second hypotheses (H2) also stands accepted. The respective SRW value (SRW = 0.69, p = .000) between the trust dimension and customer loyalty are satisfactory as compare to the acceptable criterion (Fig. 3). The reason behind is that when the employees of the companies builds trust factor among the customers, it enhances customer loyalty. The result revealed that communication is significantly influence the loyalty of the customer as the values of SRW is highly satisfactory (SRW = 0.91, p = .000). This is because of the effective interactions between companies and their customers. Thus, a hypothesis (H3) is accepted (Fig. 3). Lastly, SEM results found that the relation between conflict handling and customer loyalty is significant (SRW = 0.65, P = .000) as employees handles the conflicts of the customers in such an effective manner that ultimately ensure their loyalty towards organisation which confirms the acceptance of last hypothesis (H4).

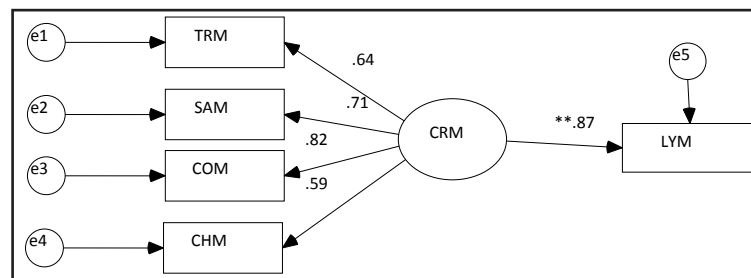


Fig. 2: Impact of CRM Variables on Customer Loyalty

Key: TRM= Trust, SAM= Customer satisfaction, COM= Communication, CHM= Conflict handling, CRM= Customer relationship management and LYM = Customer loyalty. e1-e5 are the error terms of manifest variables and latent constructs.

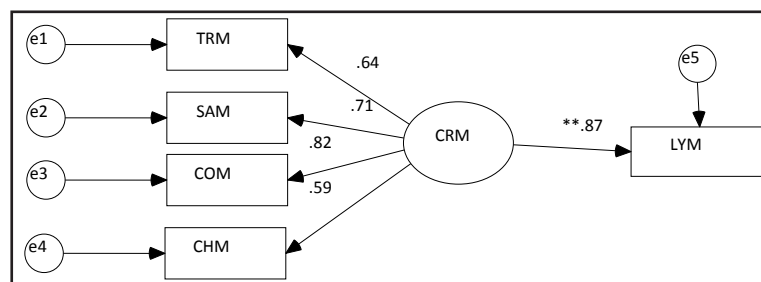


Fig. 3: Individual Impact of CRM Variables on Customer Loyalty

Key: TRM= Trust, SAM= Customer satisfaction, COM= Communication, CHM= Conflict handling and LYM = Customer loyalty,e1-e5 are the error terms of manifest variables and latent constructs.

Table 4: Overall Fitness

	Chisq/df	GFI	AGFI	CFI	NFI	TLI	RMSEA	RMR
Model 1	2.106	.983	.961	.943	.901	.914	.051	.014
Model 2	2.325	.934	.935	.924	.866	.823	.049	.017

CONCLUSION AND MANAGERIAL IMPLICATIONS

Customer Relationship Management (CRM) understands the customer needs and serves them accordingly with its ability to build loyal customers as the cost of providing services to the loyal customer is comparatively less than the cost of attracting prospective customers. The objectives of this paper is to understand the impact of the CRM practices on customer loyalty in an insurance industry of Jammu and to evaluate the relationship between dimensions of CRM namely, trust, customer satisfaction, communication, conflict handling on customer loyalty respectively. The results of the present study provided a realistic and theoretical contribution to the existing literature of CRM. Firstly, there is a significant and positive impact of CRM practices on customer loyalty. Therefore, the results of this study indicated that the firms are gaining loyalty of their esteemed customers by implementing the number of CRM practices as customer satisfaction, trust building, handling conflicts, and two way communication. In addition, the findings are in consistent with the previous empirical studies regarding the influence of CRM practices and its impact on customer loyalty. Moreover, this paper has made an effort to conform the relationship between the trust and customer loyalty for enhancing the knowledge of the companies in retaining customer trust which leads to build long term relationship to them. Most of researchers and authors stated that gaining the loyalty of the customers is a prerequisite for any organisation by satisfying them to the utmost level through securing and collaborating relationship between customer and service providers. The findings of the present study are also in consistence with those of the previous studies as there is a positive relationship between customer satisfaction and customer loyalty. Lastly, handling conflicts through avoiding prospective conflicts, resolving the customer conflicts, communicating timely & trustworthy information, and open discussions of the problems with the customers will also increase loyal relationship with them. The findings and the interpretations of the present study contributed in providing valuable recommendations to the insurance sector especially general insurance companies. Firstly, general insurance company should acquire and maintain loyalty of the customers by building trust and establishing quality relationship with them. General insurance companies should focus more attention on the customised services to satisfy the needs and desires of the customers which has highest influential impact on customer

loyalty. Firms should discharge all their responsibilities to the fullest towards its customers and the commitment should be fulfilled. Companies should also make efforts to advance its operations in resolving the conflicts and providing accurate and well-timed data to its esteemed customers so that it will be helpful to them and ultimately leads to retain the customers. For effective management of customer relationships and gaining their loyalty managers or employees of the companies should focus on creating more and more strategies in creating committed customers and building loyalty program with economic incentives etc.

LIMITATIONS AND FUTURE RESEARCH

This study is limited to only public sector general insurance companies operating in Jammu district of J&K state. Therefore, the results of the study cannot be generalised on other service oriented organisations. There are very few studies on manufacturing organisations and this sector should be considered in future. Further, very few dimensions are studied in this paper and more dimensions of CRM namely, attitude of employees, knowledge ability, commitment etc. should be studied in future research. Moreover, the scope of the study could be enlarged by analysing the CRM constructs of private insurance sector and investigating the impact of CRM practices on customer retention and business performance. Lastly, managers of general insurance companies should focus their due attention on customer redressal system for ensuring long term relationship with their esteemed and profitable customers.

REFERENCES

- Akbar, M. M., & Noorjahan P. (2009). Impact of service quality, trust, customer satisfaction on customer loyalty. *ABAC Journal*, 29(1), 24-38.
- Amoako, G. K., Arthur, E., Bandoh C., & Katah, R. K. (2012). The impact of effective Customer Relationship Management (CRM) on repurchase: A case study of (GOLDEN TULIP) Hotel (ACCRA-GHANA). *African Journal of Marketing Management*, 4(1), 17-29.
- Berndt, A., Herbst, F., & Roux, L. (2005). Implementing a customer relationship management programme in an emerging market. *Journal of global business and technology*, 1(2), 81-89.

- Bove, L. L., & Johnson, Lester W. (2001). Customer relationships with service personnel: Do we measure closeness, quality or strength? *Journal of Business Research*, 54, 189-197.
- Chopra, A., Arora, U., & Kumar, R. (2012). An empirical study on customer perception towards CRM practices in foreign banks. *International Journal of Management Sciences*, 1(2), 39-43.
- Dagger, T. S., David, M. E., & Ng, S. (2011). Do relationship benefits and maintenance drive commitment and loyalty? *Journal of Services Marketing*, 25 (4), 273-281.
- Das, K., Parmar, J., & Sadanand, V. K. (2009). Customer Relationship Management (CRM) Best practices and customer loyalty: A study of Indian retail banking sector. *European Journal of Social Sciences*, 11(1), 61-85.
- Ehigie, B. O. (2006). Coorelates of customer loyalty to their bank: A case study in Nigeria. *International Journal of Bank Marketing*, 24(7), 494-508.
- Hair, J. F., R., Anderson, E., Tatham, R. L., & Black, W. C. (2009). *Multivariate data analysis* (5th ed.), New Delhi: Pearson Education.
- Jasola, M., & Shivani K. (2008). CRM: A competitive tool for Indian banking sector. *Communications of the IBIM*, 5, 178-188.
- Kubi, B. A., & Doku, A. K. (2010). Towards a successful customer relationship management: A conceptual framework. *African Journal of Marketing Management*, 2(3), 37-43.
- Lombard, M. R. (2011). Customer retention through customer relationship management: The exploration of two-way communication and conflict handling. *African Journal of Business Management*, 5(9), 3487-3496.
- Mithas, S., Krishnan, M. S., & Fornell, C. (2005). Why do customer relationship management applications affect customer satisfaction? *Journal of Marketing*, 210-209.
- Ndubisi, N. O., & Wah, C. K. (2005). Factorial and discriminant analyses of the underpinnings of relationship marketing and customer satisfaction. *International Journal of Bank Marketing*, 23(7), 542-557.
- Ndubisi, N. O., Wah, C. K., & Ndubisi, G. C. (2007). Supplier-customer relationship management and customer loyalty: The banking industry perspective. *Journal of Enterprise Information Management*, 20(2), 222-236.
- Ouyang, Y. (2010). A relationship between the financial consultants' service quality and customer trust after financial tsunami. *International Research Journal of Finance and Economics*, 36, 75-86.
- Oztaysi, B., Sezgin, S., & Ozok, A. F. (2011). A measurement tool for customer relationship management processes. *Industrial Management and Data Systems*, 11(6), 943-960.
- Rootman, C., Tait, M., & Bosch, J. (2007). Variables influencing the customer relationship management of banks. *Journal of Financial Services Marketing*, 13(1), 52-62.
- Sarlak, M. A., & Fard, R. S. (2009). The impact of CRM on the customer satisfaction in agricultural bank. *American Journal of Economics and Business Administration*, 1(2), 173-178.
- Sharma, S., Goyal, D. P., & Mittal, R. K. (2007). Evaluation model for data mining software: An empirical investigation of ICICI bank. *Journal of Advances in Management Research*, 4(2), 63-68.
- Wahab, S., Noor, A. M., & Ali, J. (2009). The meditating effect of CRM performance. *The Asian Journal of Technology Management*, 2(2), 40-48.
- Zablah, A. R., Bellenger, D. N., & Johnston, W. J. (2004). An evaluation of divergent perspectives on customer relationship management: Towards a common understanding of an emerging phenomenon. *Industrial Marketing Management*, 33, 475-489.
- Zulkifli, Z., & Tahir, I. M. (2012). Influence of demographic factors on customers' perceptions towards CRM practices among banks. *Universal Journal of Management and Social Sciences*, 2(3), 30-36.