A Study of Relationship Marketing Types, Service Quality, and Relationship Quality on Customer Loyalty in the Life Insurance Industry

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Abstract

This study conducts in-depth interviews as well as an empirical survey to examine relationships of relationship marketing types, service quality, and relationship quality on customer loyalty. Prior studies seldom explore the issue as this life industry in Taiwan. The purpose of this study: 1. Probe the relationship of service quality of client service center of life insurer and relationship quality. 2. This study examines the relationship of relationship quality of client service center of life insurer and customer loyalty; the relationship of relationship marketing types and service quality; the relationship of relationship marketing types and relationship quality; the relationship of relationship marketing types and customer loyalty.

The sample for this study is drawn from the clients of client service center of the life insurance industry in Taiwan. Results indicate that service quality is positively related to relationship quality. Relationship quality is related positively to customer loyalty. Relationship marketing types will be positively related to service quality. Relationship marketing types will be positively related to relationship quality. Relationship marketing types will be positively related to customer loyalty. Finally, this concludes provide theoretical implications and managerial implications.

Keywords: Relationship marketing, Service quality, Relationship quality, Customer loyalty.
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I. Introduction

Relationship marketing refers to the marketing process of attracting, developing and maintaining customer relationships (Berry and Parasuraman, 1991). Successful relationship marketing helps create loyal customers, establish favorable word of mouth and lower the costs of cultivating new customers (Berry and Parasuraman, 1991). In recent years, as competition in the life insurance industry has grown increasingly fierce, customers have become firms’ most important strategic resources (Webster, 1994). Maintaining long-term relationships with customers and increasing customer satisfaction as well as loyalty are highly related to the profitability of enterprises (Reichheld and Sasser, 1990; Jacob, 1994). Crosby et al. (1990) noted that the quality of such relationships plays an important role in affecting customer loyalty. According to many studies, good quality relationships mean that customers are able to have trust and confidence in the selling parties through achieving a continuous sense of satisfaction. Other studies regarding the correlation between relationship quality and customer loyalty also indicate that when customers are aware of continuous, better service quality, they are more willing to develop and maintain a long-term relationship and express a higher sense of trust and satisfaction toward service staff (Crosby et al., 1990; Shani and Sujana, 1992; Jones and Sasser, 1995).

In recent years, the demand for insurance products has risen with increasing levels of personal income and quality of life in Taiwan, and the insurance industry has grown accordingly. Indeed, Taiwan’s life insurance industry has seen steady growth, even amid the Asian financial crisis in 1997 as well as the global financial crisis that began in 2008. Meanwhile, the cross-straits Memorandum of Understanding (MOU) was signed in November 2009, establishing cooperation and communication among financial management institutions in Taiwan and China. In addition, according to the Taiwan Insurance Institute (2009), Taiwan’s ratio of life and annuity insurance coverage was 204.84%, representing the ratio of the number of in-force policies of life and annuity
insurance to the population, while for the same year the ratio of life and annuity insurance prevalence was 339.67%, representing the ratio of the sum of in-force policies of life and annuity insurance to national income, indicating the importance of this industry. Details of the life and annuity insurance coverage ratio and the life and annuity insurance prevalence ratio (2000-2009) are given in Figure 1. With the growing popularity of adopting a customer-orientation in business, life insurers can no longer rely on the traditional product-oriented and favor policy strategies, with the latter meaning that policies were sold according to the salespersons’ own social networks, rather than based on real customer demand, and such sales usually lacked complete after-sales services. Life insurers now need to work on differentiating customer groups, identifying their various needs, launching products that are more suitable for them. As most life insurance products are long-term policies, they contain an intangible quality (Tsoukatos and Rand, 2006). Therefore, in addition to developing high quality services, life insurers need to establish and maintain long-term relationships with policyholders in order to increase customer loyalty and ultimately raise profitability.

(Insert Figure 1 about here)

Given the above reasoning, this study attempts to focus on policyholder service centers in the life insurance industry, which have been increasingly emphasized in Taiwan, to examine the impacts that different relationship marketing methods have on service quality, relationship quality and customer loyalty. Based on the results of in-depth interviews and surveys, this study also attempts to propose a set of references to aid the development and implementation of relationship marketing campaigns, and to make further contributions to both the academic and empirical literature.

The main purposes of this study are as follows. 1. Explore the correlation between the service quality offered by life insurers’ policyholder service centers and relationship quality. 2. Examine the correlation between relationship quality and customer loyalty. 3. Investigate the correlation between various types of relationship marketing and service quality. 4. Explore the correlation between various types of relationship marketing and relationship quality. 5. Explore the correlation between various types of relationship marketing and customer loyalty.
The contributions of this study are as follows:
1. This study explores the correlation among various types of relationship marketing, relationship quality and customer loyalty in Taiwan’s life insurance industry, thus filling a gap in the existing literature on insurance marketing.
2. Previous domestic and international studies have focused on the wealth management departments in the banking industry, rather than the policyholder service centers of life insurers. This study will thus be able to contribute to the field of insurance marketing.
3. In the field of insurance marketing channels, this study is the first which attempts to examine the relationship between the life insurers’ policyholder service centers and customers. The results of this study will be able to serve as a reference for other studies in the area.
4. Various methods were applied in this study. First, the framework of research and contents of the questionnaire were created through literature reviews and in-depth interviews with insurance experts. The Structural Equation Model (SEM) was then used to examine the causal relationship of the constructs. Therefore, this study should be of interest to both academics and practitioners.

The remainder of this study is organized as follows. In the next section we provide the theoretical background and discuss the development of our hypotheses, and then we present our sample, data, and statistical procedures. This study concludes with a discussion of the results of our hypotheses testing, academic and managerial implications, limitations of this study and avenues for future research.

II. Literature review and hypotheses development

This section first reviews the literature on factors affecting service quality, and then explores the related works on relationship marketing, relationship quality and customer loyalty. Finally, the hypotheses of this study are proposed based on both the literature review and the in-depth interviews with insurance experts.

1. Service quality
Services possess the characteristics of intangibility, inseparability, variability and perishability (Kotler, 2000), and are difficult to measure against certain consistent standards. Still, the quality of a service is normally judged by what customers have experienced, and thus both Gronroos (1984) and Etzel et al. (2001) suggested that service quality is the result of a comparison between customer expectations and what they actually experience.

Parasuraman et al. (1985) contended that service quality is the measurement of customers’ subjective perception of the services received, i.e. customers’ perceived quality. More specifically, Parasuraman et al. (1988) defined service quality as customer assessments of a company’s overall excellence, and this is an attitude different from satisfaction and is determined by the gap between customer expectations of a service and their perceptions of it. Currently, the most commonly adopted model to measure service quality is the SERVQUAL model developed by Parasuraman et al. (1988), which contains five dimensions, namely tangibles, reliability, responsiveness, assurance and empathy. The SERVQUAL model differs from other models in its descriptions of key factors which determine the quality of service, and these factors can be used to further refine the service quality. Brady and Cronin (2001) adopted qualitative research methods to collect assessments of services in eight industries with a variety of service personnel, namely theme parks, restaurants, health care centers, hair salons, car care centers, laundries, jewelry repair shops and photo studios. The results of their research showed that service quality is multifaceted and hierarchical, with customer perceptions of quality mainly built on the three dimensions of “interaction quality”, “physical environment” and “outcome quality”. These dimensions form the basis for customers to evaluate the primary construct.

2. Relationship quality

“Relationship quality” is a new concept developed from relationship marketing, which emphasizes that when building long-term and mutually beneficial relationships with individual customers companies need to use the idea of “quality” in order to lower the transaction costs or the uncertainty of future transactions, thus ensuring the continued operation of the system. There are no consistent definitions regarding relationship quality in the literature (Dorsch et al., 1998; Kumar et al., 1995; Bejou et al., 1998;
Henning-Thurau et al., 2002), but most researchers have regarded satisfaction and trust as important indicators of it (Crosby et al., 1990; Dwyer et al., 1987; Shamdasani and Balakrishnan, 2000; Henning-Thurau et al., 2001). In addition, Smith (1998) and Kumar et al. (1995) summarized the related studies and proposed that relationship quality contains at least three dimensions: trust, satisfaction and commitment, which are described in more detail, below.

Trust is a crucial factor in building strong customer relationships and acquiring market share (Urban et al., 2000), and it has to be earned before customer loyalty can be obtained (Reichheld and Scheifter, 2000). Morgan and Hunt (1994) stated that trust is the degree to which trading partners regard each other as being reliable and honest. Satisfaction refers to overall contentment, and it is the accumulated assessments based on the purchase of products or services or the related consumption experience (Garbarino and Johnson, 1999). Churchill and Surprenant (1982) also indicated that satisfaction is the result of purchasing and using products, derived from the comparison between the purchasers’ expected outcomes and the actual investment they make. Commitment is a necessary element for long-term relationships (Dwyer et al, 1987), and it is also the most commonly used variable when examining trading relationships. Commitment means maintaining an important relationship with a trading partner as well having the desire to continue the relationship in the future (Wilson, 1995). Morgan and Hunt (1994) stated that it is very important for trading partners to believe that their relationship is sustainable, as this would encourage both parties to make efforts to maintain the relationship as well as to tolerate some uncertainties. Therefore, commitment is an important symbol of good relations as well as a willingness to continue to maintain the relationship. When customers express a willingness to make a commitment to a firm, it denotes that good relations exist between the parties involved. Hence, commitment is vital to a successful long-term relationship (Dwyer et al., 1987; Morgan and Hunt, 1994; Sharma and Patterson, 1999). Dwyer et al. (1987), Gundlach et al. (1995), Wong and Shoal (2002) claimed that commitment and trust are the important variables in attempting to understanding the strength of a relationship, and the most useful dimensions in evaluating the continuous development of the relationship between trading partners.

Crosby et al. (1990) noted in their research regarding the US life insurance industry
that relationship quality is the overall assessment of the strength of the relationship between life insurance salespersons and customers, and this assessment matches the demands and expectations of both parties. Their study also showed that the professional competence of life insurance salespersons has a positive impact on service quality, indicating that when the salespersons have a high level of expertise, customers will feel more confident about the quality of the services offered. Customers’ perceived service quality assurance thus has a positive impact on the relationship quality. Henning-Thuran and Klee (1997) also stated that the foundation of any trading relationship is built on the transaction of services or products, and that the awareness of overall quality (including products and services) is the basic factor of relationship quality.

Based on the above-mentioned studies, a connection between service quality and relationship quality can be observed. Specifically, the more satisfied customers are with companies’ service quality, the better evaluations they will give with regard to the relationship quality. We thus present the following hypothesis:

H1: The better the service quality of the life insurers, the higher the relationship quality between customers and companies is.

3. Types of relationship marketing

The concept of relationship marketing was first presented by Berry (1983) in a study of marketing in service industries. Relationship marketing is a strategy to attract, maintain and promote customer relationships via the various services provided by organizations. Berry and Parasuraman (1991) indicated that relationship marketing involves attracting, developing and maintaining customer relationships. Shani and Chalasani (1992) argued that such marketing is mainly achieved by offering family-related products and services to establish ongoing, mutually beneficial relationships with consumers.

Berry and Parasuraman (1991) and Berry (1995) noted that there are three types of marketing bonds companies adopt to cultivate customer loyalty. The higher the level of
relationship marketing implemented, the stronger the bonding between customers and companies becomes. The three types of bonding are as follows. (1) Financial bonds, which mainly rely on using price incentives to encourage customers to buy the goods or services in order to maintain customer loyalty, or offering long-term customers cheaper products or free gifts. However, the competitive advantage companies enjoy with such measures is often short-lived. (2) Social bonds, when companies establish long-term relationships with customers via social and interpersonal networks. In this approach, companies regard customers as different individuals and attempt to meet the demands of various customer groups with customized services. Compared to the financial bonds, which are built based on price incentives, social bonds allow companies to enjoy greater competitive advantages, as they are more difficult to replace and also helpful in increasing the customer retention rate (Crosby et al., 1990). (3) Structure bonds, which are achieved when companies offer much more customized services to individual customers, emphasizing the delivery of high service quality and developing long-term sustainable relationships consisting of trust, satisfaction and commitment (Kumar et al., 1995). In this final strategy, companies have to offer partners integrated services or to provide customers with innovative products to meet their specific needs (Hsieh et al., 2002).

Berry and Parasuraman (1991) noted that financial bonds are built by companies offering price incentives to encourage customers to buy their products or services. They also stated that the pricing strategy of the marketing mix helps to transform random customers into regular clients. At the same time, customers can be made to identify with companies’ products and have stronger feelings of trust and commitment towards the related firms.

Wilson (1995) postulated that social bonds represent the interpersonal relationships between buyers and sellers. When there is a strong interpersonal relationship between two parties, the commitment to maintain the relationship is significantly higher. When choosing to connect via social bonds, companies are more likely to care about customers as friends and to try to meet their specific demands. When customers are aware of being regarded as friends, they would also be more willing to give the companies more service opportunities, thus increasing the chances of future cooperation. Gadde and Snehota
(2000) have pointed out that when there is closer interaction between two trading partners, they are more likely to depend on each other and affect each other's satisfaction, commitment and trust. Wilson and Mummeleni (1986) indicated that when there are stronger personal relationships and social bonds between members within a trading relationship, the commitment to maintain the relationship will also be stronger. Finally, Smith (1998) found that when companies offer personalized communication or establish social bonds with customers via personalized service delivery, a positive impact on relationship quality can be observed.

Han et al. (1993) indicated that in the complex purchasing conditions that no prevail, companies with stronger structure bonds are able to offer multiple and better customized value-added services. Compared to companies with weaker such bonds, they would also be able to receive more trust, satisfaction and commitment in maintaining long-term relationships with customers. Moreover, Lin et al. (2003) and Rodriguez and Wilson (2002) confirmed that structure bonds have a positive impact on trust, satisfaction and commitment, which form the basis of relationship quality.

Lin et al. (2003) found in their study of the banking industry that in establishing long-term transaction relationships with customers, the financial, social and structure bonds strategies all have significantly positive impacts on trust, satisfaction and commitment. Hsieh et al. (2005) undertook a study of online shoppers to examine whether online auction sellers might increase customer commitment by using bonding strategies. In their work, products were classified into three categories: search, experience and trust, which were then used as moderating variables. Their results show that regardless of the product category, the financial, social and structure bonds strategies all help to increase customers' satisfaction and commitment toward the related companies. Based on these earlier studies, we present the next hypothesis:

H2: The type of relationship marketing (financial, social and structure) adopted by life insurers is positively correlated with the relationship quality (trust, satisfaction and commitment).

Good customers relationships help enhance service quality (Parasurman, Zemail and Berry, 1991). Holmlund and Kock (1996) discovered that relationship marketing
increases customer awareness of service quality as well as customer loyalty (Storbacka, Strandvik and Gronroos, 1994). Leuthesser (1997) noted that the implementation level of relationship marketing bonds and customers’ awareness of service or product quality are correlated. Formally stated, we present the third hypothesis:

H3: The type of relationship marketing (financial, social and structure) adopted by life insurers is positively correlated with the service quality.

4. Customer loyalty

In the highly competitive insurance market, it is not easy to acquire new customers, so life insurers have endeavored to increase customer loyalty among existing clients. Reichheld and Sasser (1990) and Rosenberg and Czepiel (1984) pointed out that the cost of acquiring a new customer is five times that of keeping an existing one. Frederick and Scheftter (2000) noted that "customer loyalty" refers to the trust held by the “right” customers, and thus companies should try to win customers who are worthy of the related investment and then work to earn their commitment. According to Frederick and Sasser (1995), when the customer retention rate increases by 5%, profits will rise by from 25% to 100%. Backman and Crompton (1991) indicated that loyalty can be further divided into "attitude" and "behavior". In addition, Griffin (1996) proposed that customer loyalty should consist of the following actions: 1. regular and repeated purchases; 2. patronage of the various products and services offered; 3. establishment of word of mouth; 4. immunity to other competitors’ promotional activities. Additionally, Bowen and Shoemaker (1998) stated that customer loyalty refers to customers’ repeated purchases and the possibility of customers viewing themselves as partners of the related companies. Loyal customers are an important source of competitiveness, and retaining loyal customers is a vital task for life insurers.

Relationship quality is the key factor determining whether transactions between buyers and sellers can be maintained (Anderson and Narus, 1990). Crosby et al. (1990) found in their empirical study that customer expectations about future interactions are determined by the quality of relationships with insurance salespersons. Oliver and Macmillan (1992) indicated that customer satisfaction and trust affect customer loyalty. When customers show willingness to continue interacting with a company, the relationship between them
becomes closer and customer loyalty increases accordingly. Boles et al. (2000) also discovered that if customers have relatively good relationships with the salespersons, they are more likely to return for further purchases and to recommend the products sold. Based on this, present the following hypothesis:

H4: Customers’ perceived relationship quality is positively correlated with customer loyalty.

The aim of relationship marketing is to cultivate customer loyalty and acquire customer lifetime value via the establishment of a long-term relationship. Christy et al. (1996), Evans and Laskin (1994) and Shani and Chalasani (1992) all indicated that the implementation of relationship marketing helps enhance customer loyalty. Peltier and Westfall (2000) and Kristof et al. (2001) also found that relational bonds have a significant impact on customer loyalty, and especially structure bonds. We therefore hypothesize that:

H5: The type of relationship marketing (financial, social and structure) adopted by life insurers is positively correlated with customer loyalty.

This remainder of this study consists of four sections. The first presents an overview of the factors affecting service quality, including interaction quality, physical environment and additional services. The second covers the dimensions of relationship quality, including trust, satisfaction and commitment. Details regarding the types of relationship marketing, including financial, social and structure bonds, are given in the third section. The fourth section then presents an overview of customer loyalty, which here is composed of behavioral loyalty and word of mouth. The research framework used in this study is shown in Figure 2.

(Insert Figure 2 about here)

III. Methodology

1. Sample and data collection procedure

Policyholder service centers have direct contact and frequent interaction with customers, and thus the customer service representatives working in these centers need to
offer various after-sales services according to customer demands. This study takes as its research subjects the customers of life insurers’ policyholder service centers. Data from the Taiwan Insurance Institute (2010) show that there are 30 life insurers in Taiwan, with the full list as follows: BankTaiwan Life Insurance, Taiwan Life Insurance, Cathay Life Insurance, PCA Life Insurance, China Life Insurance, Nan Shan Life Insurance, Kuo Hua Life Insurance, Shin Kong Life Insurance, Fubon Life Insurance, Global Life Insurance, MassMutual Mercuries Life Insurance, Sinon Life Insurance, Singfor Life Insurance, Farglory Life Insurance, Hontai Life Insurance, Allianz Life Insurance, Taiwan Post, TCB Life Insurance, Prudential Life Insurance, TransGlobe Life Insurance, New York Life Insurance, Metropolitan Life Insurance, First-Aviva Life Insurance, CIGNA Life Insurance, AIA, Manulife Insurance, Cardif Assurance Vie, ACE Life Insurance, Zurich International Life Insurance and HSBC Life Insurance.

To achieve the research goals of this study, both qualitative and quantitative methods were adopted to obtain more comprehensive results. The qualitative method of in-depth interviews was used to modify the overall research model. With the help of the Life Insurance Association of the Republic of China, interviews with top executives of the policyholder service centers at five life insurance companies (Nan Shan Life Insurance, Fubon Life Insurance, Shin Kong Life Insurance, MassMutual Mercuries Life Insurance and Global Life Insurance) were conducted to ensure that relationships between the independent and dependent variables examined in this study exist, and to understand their views with regard to using the different types of relationship marketing to promote service quality, relationship quality and future customer loyalty, with these aims forming the basis for the design of the questionnaire (Siu et al., 2004). Each interview session lasted from 30 minutes to one hour, using an interview outline with open-ended questions, with these based on the review of the related literature and the opinions of the managers working at policyholder service centers of life insurers.

Pre-tested draft questionnaires were mailed to ten respondents, including instructors of insurance in universities and executives of policyholder service departments at life insurers, to assess whether the content and semantics were clear and appropriate. Follow-up interviews were scheduled via telephone calls to collect the respondents’ feedback, which was then used to modify the questionnaire. After several examinations,
inappropriate questions and items were revised or deleted and the survey questionnaire was finalized (Churchill, 1979).

According to the Taiwan Insurance Institute’s (2009) figures on the market share of life insurers (calculated by dividing the total premium income by that of the industry) in Taiwan, the top eight companies were Cathay (22.9%), Fubon (19.66%), Nan Shan (11.4%), Shin Kong (10.52%), Taiwan Post (7.3%), MassMutual (4.12%), China (3.97%) and Farglory (3.37%), accounting for 83.25% of the market. Due to limitations with regard to time and human resources, only customers of the policyholder service centers at the eight companies in the Taipei, Taichung and Kaohsiung metropolitan areas were sampled for the survey. Kerlinger and Lee (2000) suggested that the number of samples used for factor analysis should at least be ten times the number of question items. The questionnaire used this study contained thirty items. Therefore, taking into account the probability of invalid questionnaires and the actual number of usable questionnaires that would be returned, a total of 780 questionnaires, more than double the suggested amount, were issued to Cathay (180 copies), Fubon (150), Nan Shan (120), Shin Kong (100), Taiwan Post (80), MassMutual (50), China (50) and Farglory (50). With the help of the Life Insurance Association of the Republic of China and top executives from the focal life insurers, the questionnaires were mailed from July 1 to August 31, 2010. To increase the response rate, the top executives of these companies were contacted via mail or telephone prior to the mailing (Stafford, 1966). A total of 448 questionnaires were returned, of which 40 copies were incomplete and 408 copies were valid, giving an overall valid response rate of 52.3%.

In order to examine the possibility of a non-response bias as well as the representativeness of the sample, early-returned questionnaires (returned within three weeks of the mailing) were compared to late-returned ones (returned after three weeks of the mailing) with regard to gender, age and education using the $t$ test. The results were statically significant with a value of $\alpha = 0.05$, and did not show any statistically significant differences ($p = 0.35$) (Armstrong and Overton, 1977), indicating that the non-response bias had no serious impact on this study.

2. Operational measures
This study examined the relationships among "service quality", "relationship marketing types", "relationship quality" and "customer loyalty". All question items were measured using a five-point Likert scale, where 1 represented "strongly disagree" and 5 represented "strongly agree". The operational definitions and methods of measurement are as follows.

Service quality is defined as the quality and interim effects customers feel during the actual servicing process. The ten items were adapted from Parasuraman, Zeithaml, and Berry (1988), Albacete-Saez, Fuentes-Fuentes and Loirens-Montes (2007). The details of these are as follows:

(1). Interaction quality refers to the interaction relationship between customers and the customer representatives of life insurers’ policyholder service centers.

(2). Physical environment refers to the complete software and hardware environment offered by life insurers’ policyholder service centers.

(3). Additional services refer to the financial and insurance information offered by life insurers’ policyholder service centers.

There are three types of relationship marketing.

(1). Financial bonds refer to life insurance companies’ financial incentives, such as a discount and product interest, which were adopted to keep and attract customers in the short-term. Two items to measure this were modified from Berry and Parasuraman (1991) and Emmelhaize and Kavan (1999).

(2). Social bonds refer to life insurers’ actions to strengthen personal contacts with customers and to understand their needs in order to offer customized services, thus enhancing the customer retention rate. Two items for this were adopted from Berry and Parasuraman (1991), Crosby et al. (1990), Ravald and Gronroos (1996) and Wilson (1995).

(3). Structure bonds refer to the connections between life insurers and customers established with value-added services which customers find difficult to acquire from competitors. Such bonds help deepen relations with customers, and three items were developed for this by consulting the works of Berry and Parasuraman (1991), Berry (1995) and Lin et al. (2003).
Relationship quality is defined as the extent of good relations maintained between life insurers and customers. Eight items from Crosby et al. (1990), Smith (1998), Swan et al. (1999) and Morgan and Hunt (1994) were used to assess this. The details of these are as follows:

(1). Trust refers to the extent of customers’ confidence in life insurers’ actions to improve the long-term interests of customers in the transaction relationship.

(2). Satisfaction refers to the extent of customers’ contentment with the software and hardware environment offered by life insurers.

(3). Commitment refers to the completion status of items promised by life insurers to customers.

Customer loyalty is defined as the customers’ intention to purchase insurance products in the future and to offer positive word of mouth. It is measured using a five-item scale drawn from Zeithaml et al. (1996), Martensen, et al. (2000), Boles et al. (1997) and Roberts et al. (2003). Behavioral loyalty and word of mouth are used to accommodate the specific characteristics of the life insurance industry.

(1). Behavioral loyalty refers to customers’ intention to purchase a company’s insurance products again in the future.

(2). Word of mouth refers to customers’ intention to recommend a company to others.

3. Statistical approaches

We used the SPSS 12.0 statistical package for descriptive analysis of the sample structure, while AMOS 6.0 was used for the SEM. According to the two-step procedures developed by Anderson and Gerbing (1988), the first step is to develop the measurement model with good fitness employing confirmatory factor analysis (CFA) to test the reliability and validity of each construct. The second step is to further analyze the causal model of the theory, which was undertaken by SEM. Finally, the mediating relationships among the variable were examined using path analysis (Anderson and Gerbing, 1988; Bagozzi and Yi, 1988; Jöreskog and Sörbom, 1993).

IV. Result and discussions
1. Description of sample

Male and female respondents accounted for 55.4% and 44.6% of the sample, respectively. Respondents aged over 36 accounted for 31.9% of the sample, and 41.2% had a university education, indicating the growing trend for insurance products to be purchased by consumers with higher education in recent years. In addition, 25.7% of the respondents had between 7 to 9 years work experience, and 41.2% of policyholders were located in Northern Taiwan. Details of the sample are shown in Table 1.

(Insert Table 1 about here)

2. Correlation coefficients matrix

The mean, standard deviation and correlation coefficients are presented in Table 2. The results of the correlation analysis between the variables show significant positive correlations. In addition, the correlation coefficients do not exceed 0.8, indicating that multicollinearity does not affect the regression model (Hair et al., 2006).

(Insert Table 2 about here)

3. Measurement model

In this study, confirmatory factor analysis (CFA) was used to test the measurement model of the latent variables. First, when the standardized factor loading (SFL) ranges between 0.50 and 0.95, the measurement model achieves basic goodness of fit (Bagozzi and Yi, 1988). Second, the composite reliability (CR) of the latent variables is used to measure the reliability of latent variables. The higher the CR value, the more effectively the construct reliability of a specific latent variable can be determined. Fornel and Larcker (1981) and Bagozzi and Yi (1988) have suggested the CR value should be above 0.6. In addition, the average variance extracted (AVE) is above 0.5, and thus the convergent validity of the measure is established (Anderson and Gerbing, 1988). The figures shown in Table 3 indicate that good internal quality exists within the research model.

(Insert Table 3 about here)

4. Structural equation model
A structural equation model is used to test the goodness of fit, and the results show that the Chi-Square = 541 (p = 0.00), $\chi^2$/df (degree of freedom) = 3.02, Good-of-Fit Index (GFI) = 0.95, Adjusted Good -of-Fit Index (AGFI) = 0.92, Normed Fit Index (NFI) = 0.93, Non-Normed Fit Index (NNFI) = 0.71 and Root Mean Square Error of Approximation (RMSEA) = 0.041, all reaching the standards suggested by Hair et al. (2006), thus indicating a good overall model fit. The standardized path coefficients are then applied to verify the hypotheses.

The positive correlation between service quality and relationship quality (service quality $\rightarrow$ relationship quality) reaches the level of significance (0.86**), indicating that the better the service quality of the life insurers, the higher the relationship quality between customers and companies is, and thus Hypothesis 1 is supported. The positive correlation between types of relationship marketing (financial, social and structure) and relationship quality (trust, satisfaction and commitment) (types of relationship marketing $\rightarrow$ relationship quality) reaches the level of significance (0.75**), indicating that the types of relationship marketing adopted by life insurers and the relationship quality are positively correlated, supporting Hypothesis 2. The positive correlation between types of relationship marketing (financial, social and structure) and service quality (types of relationship marketing $\rightarrow$ service quality) reaches the level of significance (0.79**), indicating that the types of relationship marketing adopted by life insurers and the service quality are positively correlated, providing support for Hypothesis 3. The positive correlation between relationship quality and customer loyalty (relationship quality $\rightarrow$ customer loyalty) reaches the level of significance (0.51**), indicating relationship quality and customer loyalty are positively correlated, supporting Hypothesis 4. Finally, the positive correlation between types of relationship marketing (financial, social and structure) and customer loyalty (types of relationship marketing $\rightarrow$ customer loyalty) reaches the level of significance (0.56**), indicating that the types of relationship marketing adopted by life insurers and customer loyalty are positively correlated, supporting Hypothesis 5.

The details results are shown Table 4, and the linear structural relations among the variables are also shown in Figure 3.
5. Theoretical implications

This work represents the first attempt to study Taiwan's life insurance industry and to examine customer loyalty from the perspective of relationship marketing, using in-depth interviews and questionnaires. Theories covered in the study include financial bonds, social bonds, structure bonds, interaction quality, physical environment, additional services, trust, satisfaction, commitment, behavioral loyalty and word of mouth, which are expected to serve as references for future insurance marketing research.

6. Managerial implications

This study has found that the impact of relationship marketing on policyholders varies depending on the type of relational bonds pursued. Social bonds are the most influential type, and thus it is highly recommended that life insurance salespersons should be more active in communicating with customers and offering products (e.g. investment-linked insurance, life insurance, health insurance and accident insurance) which meet the their specific needs and preferences. Salespersons are also encouraged to be more active in offering after-sales services and developing friendships with customers. Financial and structure bonds also have positive impacts on relationship quality. With regard to the former, life insurance companies can promote products by offering premium discounts. Moreover, life insurers can also build stronger structure bonds by offering new insurance information to policyholders, immediate answers to policyholders’ questions and complaints, more complete policyholder services, and diverse product purchase channels. These measures have all been shown to be effective in enhancing customer trust, satisfaction and commitment, as well as customer loyalty.

This study has also found that relationship quality helps enhance customers’ behavioral loyalty and word of mouth. Life insurance companies therefore should endeavor to improve the relationship quality to maximize their customer retention rates. With improved relationship quality, customers are more likely to continue to hold on to their existing policies, purchase other insurance products from the same company, and
recommend the company to others.

V. Conclusions

The conclusions and research limitations of this work are as follows.

*The better the service quality of the life insurer is, the higher the relationship quality between customers and company.*

This result matches the findings of Leuthesser (1997) and Shamdasani and Balakrishnan (2000), in that life insurers can strengthen policyholders’ trust, satisfaction and commitment by improving the interaction quality and physical environment, and offering additional services. That is, in addition to creating comfortable service centers and a good atmosphere of the overall surroundings, life insurers should endeavor to better understand policyholders’ needs in order to better meet them. Meanwhile, it is vital to manage customers’ complaints in an effective manner. Apart from establishing more complete communication channels, life insurers should keep an open mind about all complaints and actively seek improvements where needed.

*The types of relationship marketing (financial, social and structure) adopted by life insurers and the relationship quality (trust, satisfaction and commitment) are positively correlated.*

These results match the findings of Morgan and Hunt (1994) and Garbarino and Johnson (1999). Life insurers can offer policyholders better insurance packages via premium discounts, fast after-sales services and diverse insurance purchase channels, thus utilizing relationship marketing strategies involved financial, social and structure bonds to further enhance customer trust, satisfaction and commitment. Life insurance salespersons are thus encouraged to develop friendships with policyholders and to work to better understand their real needs in order to offer more suitable services which customers might find difficult to acquire from competitors.

*Types of relationship marketing (financial, social and structures) adopted by life insurers and the service quality are positively correlated.*

These results match the findings of Holmlund and Kock (1996). By utilizing
relationship marketing strategies involving the financial, social and structure bonds, life insurance companies can improve the friendliness of service personnel, actively offer insurance consultancy services, provide complete hardware and software environments, and offer a variety of services, including the roadside assistance services, overseas emergency relief services, hospital concessions and toll-free services.

*Customers’ perceived relationship quality and customer loyalty are positively correlated.*

These results match the findings in Crosby et al. (1990) and Smith (1998), and thus is an area where life insurers might find competitive niches for further differentiation in the market. In the life insurance industry, good long-term relations with customers and high customer satisfaction create significant entry barriers for competitors. They also help maintain and enhance customer loyalty, which is crucial for companies’ overall performance and profitability.

*The types of relationship marketing (financial, social and structure) adopted by life insurers and customer loyalty are positively correlated.*

Life insurance salespersons should more actively care about policyholders’ insurance demands and preferences, offer premium discounts, provide insurance information and immediately solve any problems and customer complaints. Utilizing the relationship marketing strategies involving financial, social and structure bonds can help to enhance customer loyalty. In such circumstances, when a firm is criticized, its policyholders are likely to defend it, and are also willing to recommend the insurance products it offers to others as well as purchase new products from the same company.

**Limitations and future research directions**

A self-report scale is adopted in this work, so the common method variance (CMV) is a potential issue. Spector (1987) noted that CMV results from the self-report questionnaire and social desirability bias are permitted. However, two methods are used in this study to reduce CMV in terms of empirical interpretation. First, both in-depth interviews and questionnaires are used, and the statements used in the questionnaire tend to be fair and open. Secondly, SEM is used for statistical analysis (Jöreskog and Sörbom, 1993) to reduce the impact of this particular problem.
Reference


Figure 1 Ratio of life and annuity insurance coverage and prevalence (2000-2009)

Source: Taiwan Insurance Institute (2009)
Types of relationship marketing
- Financial bonds
- Social bonds
- Structure bonds

Service quality
- Interaction quality
- Physical environment
- Additional services

Relationship quality
- Trust
- Satisfaction
- Commitment

Customer loyalty
- Behavioral loyalty
- Word of mouth
Figure 3 Path diagram for structural model
<table>
<thead>
<tr>
<th>Item</th>
<th>Category</th>
<th>Sample</th>
<th>Per cent</th>
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<tr>
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<td>Female</td>
<td>182</td>
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<td>Age</td>
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<td>20-25</td>
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<td>17.2</td>
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<tr>
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<tr>
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<td>103</td>
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</tr>
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<td>31.9</td>
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<td>Over 9</td>
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<td>Area</td>
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<td>Kaohsiung</td>
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<td>33.6</td>
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Table 2 Correlations matrix among variables

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<tr>
<th>Variables</th>
<th>Mean</th>
<th>S.D.</th>
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<th>3</th>
<th>4</th>
<th>5</th>
<th>6</th>
<th>7</th>
<th>8</th>
<th>9</th>
<th>10</th>
<th>11</th>
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<td>2. Social bonds</td>
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<td>0.34**</td>
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<td>3. Structure bonds</td>
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<td>0.41**</td>
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<td>4. Interaction quality</td>
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<td>5. Physical environment</td>
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<td>0.48**</td>
<td>0.45**</td>
<td>0.44**</td>
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<td>9. Commitment</td>
<td>4.56</td>
<td>0.42</td>
<td>0.43**</td>
<td>0.41**</td>
<td>0.38**</td>
<td>0.41**</td>
<td>0.40**</td>
<td>0.42**</td>
<td>0.39**</td>
<td>0.38**</td>
<td>1</td>
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<td>10. Behavioral loyalty</td>
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<td>0.28</td>
<td>0.29**</td>
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<td>0.36**</td>
<td>0.35**</td>
<td>0.33**</td>
<td>0.41**</td>
<td>0.39**</td>
<td>0.37**</td>
<td>0.38**</td>
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<td>11. Word of mouth</td>
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<td>0.39**</td>
<td>0.43**</td>
<td>0.47**</td>
<td>0.46**</td>
<td>0.44**</td>
<td>0.41**</td>
<td>0.40**</td>
<td>0.45**</td>
<td>0.39**</td>
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</tr>
</tbody>
</table>

Note: "**" indicates statistical significance at the 1% level.

* indicates statistical significance at the 0.05% level.
Table 3  Confirmatory factor analysis result of measures

<table>
<thead>
<tr>
<th>Construct</th>
<th>Measurement aspects</th>
<th>SFL (t-value)</th>
<th>CR</th>
<th>AVE</th>
</tr>
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<tr>
<td>Types of relationship marketing</td>
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<td>0.91</td>
<td>0.72</td>
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<tr>
<td>(α = 0.90)</td>
<td>Financial bonds</td>
<td>0.71 (17.14**)</td>
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</tr>
<tr>
<td></td>
<td>Social bonds</td>
<td>0.80 (18.13**)</td>
<td></td>
<td></td>
</tr>
<tr>
<td></td>
<td>Structure bonds</td>
<td>0.78 (17.85**)</td>
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<tr>
<td>Service quality</td>
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<td>0.91</td>
<td>0.87</td>
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</tr>
<tr>
<td>(α = 0.90)</td>
<td>Interaction quality</td>
<td>0.88 (18.89**)</td>
<td></td>
<td></td>
</tr>
<tr>
<td></td>
<td>Physical environment</td>
<td>0.87 (18.87**)</td>
<td></td>
<td></td>
</tr>
<tr>
<td></td>
<td>Additional services</td>
<td>0.90 (19.02**)</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Relationship quality</td>
<td></td>
<td>0.85</td>
<td>0.65</td>
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</tr>
<tr>
<td>(α = 0.85)</td>
<td>Trust</td>
<td>0.70 (17.01**)</td>
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<tr>
<td></td>
<td>Satisfaction</td>
<td>0.73 (17.38**)</td>
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<tr>
<td></td>
<td>Commitment</td>
<td>0.72 (17.33**)</td>
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<tr>
<td>Customer loyalty</td>
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<td>0.92</td>
<td>0.86</td>
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<tr>
<td>(α = 0.92)</td>
<td>Behavioral loyalty</td>
<td>0.85 (18.84**)</td>
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<tr>
<td></td>
<td>Word of mouth</td>
<td>0.89 (19.01**)</td>
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</tr>
</tbody>
</table>

SFL, standardized factor loading; CR, composite reliability; AVE, average variance extracted.

Note: ** indicates statistical significance at the 1% level.
<table>
<thead>
<tr>
<th>Hypothesis</th>
<th>Causal paths</th>
<th>Coefficient (t-value)</th>
</tr>
</thead>
<tbody>
<tr>
<td>H1</td>
<td>Service quality → Relationship quality</td>
<td>0.86** (9.51)</td>
</tr>
<tr>
<td>H2</td>
<td>Types of relationship marketing (Financial, Social, Structure) → Relationship quality</td>
<td>0.75** (8.72)</td>
</tr>
<tr>
<td>H3</td>
<td>Types of relationship marketing (Financial, Social, Structure) → Service quality</td>
<td>0.79** (9.24)</td>
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<td>H4</td>
<td>Relationship quality → Customer loyalty</td>
<td>0.51** (6.91)</td>
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<tr>
<td>H5</td>
<td>Types of relationship marketing (Financial, Social, Structure) → Customer loyalty</td>
<td>0.56** (7.21)</td>
</tr>
</tbody>
</table>

Goodness-of-fit indices

Chi-Square test = 541 \( (p = 0.00) \) 
\( \chi^2/df \) (degree of freedom) = 3.02 
GFI = 0.95 
AGFI = 0.92 
NFI = 0.93 
NNFI = 0.71 
RMSEA = 0.041

Note: All coefficients are significant \((t\text{-value} > 2.58, \quad **) indicates statistical significance at the 1% level.\)