

Determinants of Customer Retention in Health Insurance Sector

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Abstract – The purpose of this paper is to identify the determinants of customer retention in health insurance sector. Various dimensions have been taken under study and responses of 150 customers have been recorded on 5 point Likert scale by using scientifically developed questionnaire. Data was collected and analyzed and important determinants were found out which are critical for customer retention in health insurance industry. The results indicate that innovative products, competitive prices, prompt services of companies, employee responsiveness and empathy, tangibility of services and reliability of services offered are various determinants of customer retention found crucial in this study.

Keywords – Customer Retention, Health Insurance, Customer Loyalty

I. INTRODUCTION

The health insurance industry is dynamic and has to respond radically to the ever changing global environment. Post liberalization with the entry of new players the industry has become very competitive. Therefore it is imperative for the health insurance companies to acquire new customers and retain the existing ones. Retaining customers not only makes the insurance company profitable, it helps offset new customer recruitment advertising and marketing costs.

Health Insurance policies insure against several illnesses and guarantee to stay financially secure should ever require treatment. They safeguard peace of mind, eliminate all worries about treatment expenses, and allow focusing energy on more important things, like getting better. Health is a major concern on everybody's mind these days. With sky rocketing medical expenses, the possibility of any illness leading to hospitalization or surgery is a constant source of anxiety unless the family has actively provided for funds to meet such an eventuality. Health insurance is basically a tool to minimize:

- The uncertainty of illness
- The uncertainty of cost of treatment.

The biggest current shift in the insurance market means big changes for customer experience. Because of heightened competition from many of the newer, more Internet-driven insurance providers, several of the older, well established "brick and mortar" insurance companies are investing significant resources to move more towards a direct-to-consumer business model and away from their traditional

model, which has relied heavily on third-party brokers or captive or independent insurance agents in the field. They are reclaiming, at the corporate level, their most valuable assets – their customer relationships. Why? There are several reasons: greater control of the company brand; ownership of and more control over customer relationships; more access to customer data; and the need to reduce costs. Further, more channels to reach customers directly (such as email, Internet, etc.) will yield more marketing opportunities, which will further yield more potential for up-sell and cross-sell of additional services.

Insurance products have become largely commoditized, and customers often choose their insurer purely on the basis of price. Due in large measure to the rapid growth of the Internet and the proliferation of online insurance aggregators, customers now have a greater choice than ever for insurance quotations. With little differentiation between product offerings, it is extremely challenging for insurance companies to retain customers, and this results in poor loyalty levels and increased costs. Retention of the right policyholder, however, is imperative for profitability. Because the cost of acquiring new customers can be up to 10 times the cost of retaining existing ones, even a small increase in retention rates can add millions of dollars to premium revenue, while an increase in lapse rates for unprofitable customers can dramatically improve an insurer's combined ratio.

Customer retention is an activity a business undertakes to reduce customer defections. An organizations ability to retain and attract new customers, is not only related to its within the marketplace. Customer retention is the driving force behind Customer Relationship Management (CRM), relationship marketing and loyalty marketing. Studies across a number of industries have revealed that the cost of retaining an existing customer is only about 10% of the cost of acquiring a prospect customer, so customer attrition rate should be reduced and make them for a longer time in terms of economic growth.

To increase the number of customers, a company has to look at two different aspects. Off course companies can use different strategies to reach new potential customers and try to bind them. There are several ways and strategies to reach new customers. But next to that, companies also have to make sure their current customers will stay with the company and will not switch to a competitor. Especially in service industries, like for instance health insurance industry, retention of current customers is very important (Jones, Mothersbaugh & Beatty,

2000). With increased competition and costs of attracting new customers rising, companies are focussing more and more on customer retention (Berry, 1983). In order to focus on retention and make sure current customers will not go to another health insurer, health insurance companies have different strategies they can apply. Considering the competitive environment, there is a need for banks to plan their strategies that will differentiate them from another. This can be achieved through the delivery of high service quality. The practice of excellent service quality has been proven that customer satisfaction will significantly lead to customer loyalty (Caruana et al., 2000; Caruana, 2002)

Duncan and Elliot (2002) established a link between superior customer service performance, customer retention and profitability which has become a prerequisite in the marketing literature. Furthermore, Gittell (2002) found that a more effective relationship with customers created by service providers could lead to an increase in customer satisfaction and increased retention rates. In addition to these studies, prior research shows that customer satisfaction is a significant determinant of the customer retention (Ganesh, et al., 2000). The literature points out that the expectations are a key factor behind retention and it is seen that there exists strong linkages between service quality dimensions and customer retention. From the service marketing point of view, firms must improve customer service quality and satisfaction in order to retain customers (Ahmad & Buttle, 2002) indicating that there is a strong link between customer satisfaction and customer retention.

II. RESEARCH OBJECTIVES

- (1) To identify the various determinants of customer retention in Health Insurance Sector
- (2) To identify the impact of customer retention in Health Insurance Sector

III. RESEARCH METHODOLOGY

Hypothesis:

As per the prior discussion, the present study accesses in detail the effects of customer satisfaction and retention in terms of Health Insurance to their valuable consumers. The study is based on the performance of various health insurance like mediclaim providers in Indian market. Satisfaction reveals to confirmation or disconfirmation in the expectation of customer. There may be a number of underlying reasons which may impact on valuation of services by consumers. Specifically, we examine the effect of quality on customer retention. According to the conceptual framework discussed previously, it can be concluded that overall quality leads to customer retention. However, effective service quality leads to both customer acquisition and retention. Following hypotheses stem from the question areas that are based on the earlier research findings as:

H₀₁: Product dimension in service industry does not determine customer retention.

H₀₂: Price of the product has no role to play in retaining customers.

H₀₃: Services provided by Health Insurance companies are not very critical in retaining its customers.

H₀₄: Employee responsiveness does not play important role to retain customers.

H₀₅: Tangibility of services is not important in retaining customers.

H₀₆: Reliability does not determine customer retention.

Questionnaire Development

The survey instrument was self-administered consisting of a screening question i.e. "Deals with parameters of overall quality of Mediclaim in relation to customer satisfaction" This question helped to identify and analyze the customer satisfaction and retention service of health insurance companies. Finally all information was obtained by 27 item index. For each item respondents used a 5 point Likert scale extending from "Strongly Disagree" to "Strongly Agree". Twenty seven items for overall quality and performance index were developed by the researchers keeping in view the past studies. Questionnaire responses were collected from professors and professionals from various industry availing services of public sector and private sector health insurance companies.

Data Collection and Samples

The present study was aimed at understanding the impact of overall quality on customer satisfaction, and retention in case health insurance companies. For this purpose, 150 respondents were selected from Madhya Pradesh. The respondents were screened as customers who met the following criterions:

The respondents were randomly approached in the health insurance company. As the study was exploratory in nature, the sample of the study was non-probabilistic convenience sample comprising of 150 respondents. Respondents from 6 cities of Madhya Pradesh were requested to respond to the questionnaire. For data analysis one sample 't' test was applied.

Data Analysis and Interpretation

The following is the discussion on each of the parameters of the customer retention of health insurance companies. For achieving the primary research objective various hypothesis have been framed which have been taken one by one to analyze the data collected. Customer retention is a set of multidimensional factors consisting of product, price, services offered, and employee responsiveness, tangibility of services and reliability of services provided. Table 1 below depicts the results of t-test applied, which helps in identifying various dimensions of customer retention.

H₀₁: There is no significant difference between Product dimension and customer retention In Table 1, in product

dimension, p value obtained is less than sig. value 0.05 hence it has been rejected and it is concluded that innovative and customized products are very important in retaining customers. Product is an important dimension for any business to attract its customer, features and benefits obtained, innovative and customized products, riders, coverage of all types of disease, top up options available, and effect of waiting period clause in policies in purchase decision are the various parameters undertaken in the study which can affect customer retention. While Analyzing data obtained from t-

test, various parameters undertaken under this dimension has mean values ranging from 3 (comprehensive coverage of critical illness) being lowest to 4.6 being highest (innovative and customized product) with positive value of standard deviation at 5% significance level since p value obtained is less than significance value 0.05 hence null hypothesis is rejected. Other most important parameters are availability of wide range of products (mean value 3.9), Riders, top up options available and waiting period clause (mean values 3.8)

Table 1 showing 'T' Test Analysis

Determinants	Parameters	Mean	Std. Deviation	T- Value	Sig. (2-tailed)
Product	Availability of wide range of products	3.9	0.302	46.433	0.00
	exclusive features and maximum benefits of policies	3.7	0.644	18.647	0.00
	innovative and customize products	4.6	0.804	26.118	0.00
	Riders	3.8	0.603	21.558	0.00
	Comprehensive coverage of critical illness	3	0.449	11.124	0.00
	Top-Up options available	3.8	0.402	32.337	0.00
	Effect of Waiting Period Clause	3.8	0.603	21.558	0.00
Price	Transparency in charges	3.7	0.785	15.287	0.00
	Competitive premiums and other charges	3.8	0.603	21.558	0.00
	Discount /freebies on renewals	3.8	0.603	21.558	0.00
Services	cashless facilities	4.6	0.492	42.651	0.00
	24*7 toll free services	4.8	0.402	57.212	0.00
	Transaction alerts through SMS and Email	4.8	0.402	57.212	0.00
	Regular policy statements	4.4	0.804	23.631	0.00
	Easy claim settlement policies and procedures	3.7	0.644	18.647	0.00
	Satisfaction from services	3.7	0.644	18.647	0.00
	willingness to renew the policy	3.7	0.644	18.647	0.00
Responsiveness	Addressing customer queries and complaints	3.6	0.667	16.5	0.00
	Fulfill all commitments	3.5	0.81	12.341	0.00
	Feedback from customers are welcomed	3.7	0.644	18.647	0.00
	trained and Expert advisory services	3.5	0.674	14.832	0.00
Tangibility	Easy Accessibility of services	4	0.711	21.107	0.00
	Availability of branch offices	4.5	0.503	39.799	0.00
	Sufficient number of network hospitals	3.5	.674 ^a	14.832	0.00
Reliability	Reliability of Brand name	4	0.711	21.107	0.00
	Confidentiality of personal information	3.8	0.402	32.337	0.00
	easy and secure premium payment mode	3.7	0.461	26.055	0.00

H₀₂: There is no significant difference between Price dimension and customer retention

Another very important dimension of retaining customer is the price of the services. It is that determinant which can change entire situation 360 degree. If prices are not competitive enough all the companies have to face problems in self marketing and selling their products. In the above table 1, three important parameters are taken under this dimension – transparency in charges, competitive premiums and other charges, and discount /freebies on renewal of policies; where mean value ranges from 3.7-3.8 having std. deviation 0.603 to 0.785 and t value 21.558 to 15.287 at 5% sig. level .p values are less than 0.05 sig level hence 2nd null hypothesis has been rejected.

H₀₃: There is no significant difference between services provided by companies and customer retention

Improved level of service quality are related to higher revenues, increased cross-sell ratios and higher customer retention (Bennett & Higgins 1993) and expanded market share (Bowen and Hedges, 1993). Companies must understand that customer will be loyal only if the greater value is provided by them as compare to competitors..

While analyzing this dimension in the study various parameters are taken like cashless facilities, 24*7 toll free services, transaction alerts through SMS and E-mail, regular policy statements, easy claim settlement policies and procedures, satisfaction from services, willingness to renew the policy. From table 1 it can be seen that mean value ranges from 4.8-3.7 having standard deviation 0.492 to 0.644 at 5 % sig. level. The highest mean value were found for parameters like 24*7 toll free services (4.8) and SMS and email alerts (4.8) and least mean value 3.7 for easy claim settlement policies and procedures, satisfaction from services and willingness to renew the policy. Since p value is <0.05 for all the parameters hence they are significant for study. Because of technological advancement customer prefer 24*7 toll free services and SMS & email alerts so that they can access services conveniently any time at his own place. Hence these services plays critical role in retaining the customer. Similarly cashless facility is another important feature of Mediclaim service where customer can get medical treatment facility without bothering for cash payment at the time of medical emergency. So from above interpretation third null hypothesis is rejected.

H₀₄: There is no significant difference between Employees Responsiveness and customer retention.

In service industry employees of companies play a vital role in tangibilizing the services offered to customer hence when a customer get good response or expected response from company, when all his query and complaints are address properly, all commitments make to him are fulfilled, their feedback are welcome and receives trained and expert advisory services, his satisfaction level is increase with the

services. In health insurance sector customer are directly interacted and hence response received by him plays an important role in determining the longevity of his association with company. Hence after analyzing employees responsive factors the important parameters identified are feedback received from customers and addressing customer query and complaints with mean values 3.7 and 3.6 and 5% significant level since p value is less than .05 for all the parameters so null hypothesis has rejected.

H₀₅: There is no significant difference between tangibles and customer retention

In this dimension three parameters are taken easy accessibility of services, availability of branch offices and sufficient number of networks hospitals. The mean values score is highest for availability of branch offices (4.5) followed by easy accessibility of services (4) mean value and sufficient hospital associated with company. For health insurance customer it is important that services should be easy available in the form of company offices hence tangibilizing the services with the help of infrastructural support are required by services sectors. Since p value is less than to .05 for all the three parameter that's why null hypothesis has been rejected.

H₀₆: There is no significant difference between reliability and customer retention

As per data analysis reliability of brand name parameter scored highest mean value (4) than, confidentiality of personal information (3.8) easy and secure premium payment mode (3.7) with p value less than .05. So null hypothesized framed for this dimension is rejected. Brand name is very important for a customer as it is an identification of the company. People trust the brand once it is stabilized in the market because of its reliable and prompt services also customer wants confidentiality of his personal information and security of transactions specifically in online premium payments hence these parameter score high when we talk about customer retention.

IV. DISCUSSION AND CONCLUSION

After analysis of data it was found that customer retention is an important aspect which the service industries must focus upon. Since services are customer centric it is of utmost priority for a company to retain its existing customers apart from gaining new one. In the present scenario, the insurance industry faces a dynamic global business environment. Radical changes have been taking place due to the internationalization of activities, new risks, and innovative ideas on customer service. After liberalization, the new players entered into the insurance business and the existing insurers are facing many problems from non-traditional competitors. In any sector whether it is public or private, the growth of the business depends on the innovative services that are provided to meet the needs and requirements of the customer. It can be concluded from this study that customer retention is a set of various dimensions which largely affects

the loyalty and satisfaction of customers from the services. Innovative Products, competitive prices, prompt services of companies, employee responsiveness and empathy, tangibility of services and reliability of services offered are various determinants of customer retention found crucial in this study. The health insurance companies need to consider the weak areas in order to meet customer requirement. The study has limitations in terms of sample size and if more respondents could be included might be changed in terms of satisfaction ranking.

V. LIMITATIONS OF THE STUDY AND DIRECTION OF FUTURE RESEARCH

Three limitations were identified in this study. First, only health insurance services are covered under the study. Second, the sample size and the number of actual respondents are limited and finally, a more robust analysis is needed to reach a strong conclusion. In order to greatly contribute to the existing body of knowledge about customer loyalty and retention within the insurance sector in India, it is recommended that

similar future research could be conducted taking in life insurance as well as General insurance sector and with more sample sizes.

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