



Identifying the Structural Factors affecting Customer defection Insurance companies Case study: The Dana Insurance Company's branches in Zahedan city, Iran

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Abstract

Today, the increase in competition in all services, especially insurance services retaining customers and increase their loyalty is more difficult. So, paying attention to the customers and provide customers' needs can prevent from customers defection, and to increase their loyalty. The purpose of this study is to identify the structural factors affecting customer defection in insurance companies, to achieve this goal, 400 questionnaires were distributed among customers who use the Dana insurance branches' insurance services in Zahedan. The findings shows respectively unfair price, the low quality of services, high transformation costs and finally the low quality of the physical environment played important role in the intentions of the customers and their defection.

Keywords: Customer defection, insurance, structural factors.

Introduction

In Today's competitive world, customers play the key role in maintaining and ultimately survival of organizations. The success of any business depends on its performance in keeping its customers for a long period of time. With the intensification of competition between firms in finding customers for their products and services, and increasing customer's power in today's competitive world, companies should not only think of attracting new customers, but also ponder on the maintaining and keeping customers and reinforcing the relationships with them. Profitability through customer has been considered as a significant factor for many successful organizations. Insurance companies are structured based on the services or contact channels for the customers. These organizations should keep their profitable and bilateral relationships with the customers to survive¹.

Necessity of the research: The costs of attracting new customers is increasing. Thus, although finding new customers is very important, keeping the old customers and creating a permanent relation with them is emphasized. If the customers are satisfied with the services, they will use the services again. Also, this is the most common factor in the customer defection. Customer defection is a complex phenomenon which is under influences numerous factors. This research aims at presenting a review of this phenomenon and the structural elements which influences it².

Statement of the problem: The growth and development of insurance as a development index of societies is highly influenced by the rate of customers' satisfaction, so that the sustenance and survival of an insurance company depends on the satisfaction of its customers³. Customer defection is a quite important criterion from the insurance companies' perspective which is related to the view and the decision of costumers. Insurance companies suffer a lot from the defection of their customers. The study and analysis of the reasons of customer defection can motivate the companies to take action against this problem. The present study aims to answer the following question: What Structural factors affect defection in insurance companies?

Purpose of the research: Every research intends to answer a series of questions by following some goals and perspectives. This research tries to answer the following questions: i. What Structural factors affect the customer defection in Dana Insurance Company's branches? ii. What is to ranking of the structural factors which affect the customer defection in Dana Insurance Company's branches?

Definition of customer: In the market culture, customer is a person who has the ability and potential to buy goods or services. The choice and the buying occurs as the result of the combination of ability and potential of the person. According to this culture and perspective, customer is a smart and wise person who studies about satisfying his needs, and makes decisions based on his funds and potentials⁴.

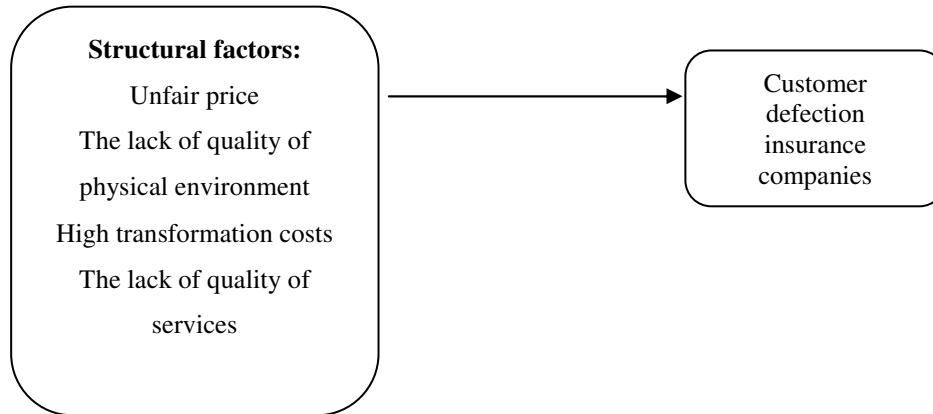


Figure-1
Conceptual model of the research

Definition of customer orientation: Customer orientation refers to collecting the customers' information in order to use them in business units⁵. In other words, customer orientation depends on the ability of the organization to gather the customers' information and use them. To satisfy the customers, the organization prepares a strategy, and implements it by responding to the needs and demands of the customers⁶.

Advantages of utilizing customer relationship management: Customer Relationship Management has compelled the organizations to pay more attention to their customers and their satisfaction with regard to the services rather than the mass production of goods. Customer Relationship Management helps the organizations to identify the important customers and keep them for further businesses. Thus, the expense of attracting new customers is reduced, and the organization's profit is increased because of the loyal customers. The advantages of using the Customer Relationship Management can be summarized as follows: the increase the profit, more contact with customers, the increase in buying, collecting the detailed information of the customers, the increase in the customers' loyalty, the decrease in the expense of attracting new customers, facilitate of the developing new products, increase sales additional surplus purchase, the decrease in the costs of direct marketing, increase brand loyalty and increase lifetime customers⁷.

Definition of loyalty: Loyalty refers to a strong commitment for buying a product or a good service in the future, so that the same brand, product or service will be purchased in spite of the rival organizations' marketing and their influence⁸.

Advantages of customer loyalty: The advantages of customer loyalty is widely acknowledged in business. One of the advantages is the lower cost keeping the present customers in comparison with that of attracting new customers, especially in the completely competitive markets. It has been duly understood that long-term customers develop their relationship in the range of products, and the profit gained by this group of customers is accumulated in a long run. Another known advantage of

customer loyalty is that the loyal customers act as information channels, and provide the organization with potential customers by creating an unofficial network between friends⁹.

Retention customer: In the past, many companies keep their customers as an asset. Customers usually have not alternative providers, or other providers were as weak in service quality as their current providers. A company can lose a hundred customers in a week, but find a hundred customer in exchange, and enjoy the desired profit. Such a company believes that there are always enough customers to replace the ones who have left the company. However, the expense of attracting new customers is constantly fluctuating. Hence, companies should take into consideration the rate of customer attrition, and take steps to reduce it. A company should identify the reasons of customer defection, determine which of these factors can reduce or eliminated¹⁰.

Customer defection: Customer defection refers to the loss of customers. Banks, telephone services providers, internet service providers, insurance companies, and companies that offer observational and warning services often use the analysis of the rate of customer defection as a key criteria of their business. The reason for such an endeavor is that the cost of keeping the existing customers is far less than that of finding new ones. In order to decrease customer defection, companies have some branches which provide services for the customers. These companies have realized that long-term customers are more valuable for them than the new ones. There is a difference between volunteer and willing defection, and unwanted and compulsory defection. Volunteer and willing defection occurs when a customer decides to refer to another service provider. While unwanted and compulsory defection occurs due to reason such as the movement of the customer because of illness, or moving to a far place. Numerous studies have presented different methods of prediction to create a pattern of customer defection which includes different features such as demographic conditions and environment changes, and the combination of them. Organizations should develop international standards of

acknowledging and sharing the best practice in the field of customer service to decrease the customer defection¹¹.

Methodology

In regard to the purpose, application and the method of collecting data, this research is survey-descriptive. Dana Insurance branches in city of Zahedan have been chosen for collecting the required data in order to test the assumptions of statistical society of this research. The simple random sampling was utilized.

Using Morgan table, the number of samples in this research was 386, which was increased to 400 for attaining more credit. Questioners, as the most common tools of testing in survey researches, were used to collect the required data for testing this research's assumptions. The validity of the thesis has been confirmed by professors and specialists.

The SPSS Alpha Cronbach was used to do the final calculations which shows the stability of the results. The Kolmogorov-smirnov test, t-test and Friedman Test have been used for the analysis of the results.

Results and Discussion

The normality of the data collected from questioners was tested by Kolmogorov-smirnov test. The results of this test showed that since the data collected from questioners was normal, parametric t-test should be carried out to analyse the extend of the effect of each structural factor on customer defection.

Since the value of each of the identified structural factors is more than the error rate, it is safe to assume that data is normal. T-test was carried out in order to analyze the impact of the identified variables of the conceptual model on the customer defection. The test showed that all of the introduced elements in the research model had impact on customer defection. When a component has a mean of lower than 3, it has a very small importance, and will be eliminated soon. However, when a component has a mean of higher than 3, it is an effective index in customer defection. The results of this research showed that all of the proposed elements had a mean higher than 3.

In this research, after testing the research assumptions, ordering of the identified elements was carried out by using Friedman Test. The results of this test are shown in table-3.

Table-1
Kolmogorov-smirnov test

Identified factors	Number of samples	P-Value	Error level (α)	The result of the test
	400	0.1	0.05	The distribution of the observations is normal

Table-2
Average indices of questionnaires from the perspective of the sample

Factor	Line	Components	Mean	Standard deviation
Structural	1	Better price offered for the same service in other insurance companies	4.3	0.8
	2	Unfair premium of this company	4.4	0.7
	3	Unattractiveness of the building and location of the company	4.2	0.7
	4	The company's refusal to use advanced facilities and technologies	4.5	0.6
	5	The feeling of being in an undesirable condition in the companies environment	4.2	0.7
	6	Lack of cleanliness and sanitation in place now	4.3	0.6
	7	No difficulty in changing the insurance company	3	1
	8	No financial loss by changing the insurance company	3.7	0.9
	9	Losing no personal relationships	3.5	0.8
	10	The lack of presentation of good and diverse services	2.9	1.1
	11	Better services offered by rival companies	3.5	1
	12	A long waiting time for receiving the services	3.1	1.1
	13	Limitations in offering services	3.4	1.1

Table-3
Ranking of the identified structural factors affecting customer defection

Factor	Mean	Component
1	4.4	Unfair price
2	4.3	The lack of quality of service
3	3.4	High transformation costs
4	3.2	The lack of quality of physical environment

Conclusion

According to the results of this research, unfair price is the most important factor in customer defection. Lack of quality of services and high transformation costs and the lack of quality of the physical environment in order to ranking were identified as structural factors affecting in customer defection. In order to decrease the rate of customer defection, one solution for the insurance companies is to offer information about diverse and complete insurance services with fair and suitable prices to the customers. Other solutions can be giving information about new and modern services of company in different ways to the customers, and also trying to make proper contact with the customers.

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