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Customer Loyalty in the Life Insurance Sector: A Theoretical Overview

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Abstract
Loyalty is a customer's intention or tendency to repurchase goods or services from the same organization (Edvardsson *et al*., 2000) [13]. Studies have shown that businesses are interested in factors affecting customer loyalty because they believe loyal customers will lead to profits. Customer loyalty is especially important to insurance companies because the cost of acquiring a new customer is recovered in the third or fourth year of the policy if it is maintained (Zeithaml *et al*., 1996) [53]. Although the existing service marketing literature has extensively researched customer loyalty and revealed several antecedents of customer loyalty, specific research on loyalty in the life insurance sector still needs to be conducted. This study aims to synthesize different perspectives and aspects of loyalty. On that basis, discuss some specific differences in loyalty in the insurance field compared to other fields to serve as a basis for developing customer loyalty in life insurance companies in the current context.

Keywords: Loyalty, Life Insurance, Theoretical Overview

JEL Code: G00, G02, G22

1. Introduction

Customer loyalty plays a very important role for businesses. Finding a new customer is often more difficult and costly than maintaining an existing customer. Therefore, getting consumers to return to companies is a big issue that needs attention to maintain advantages and increase profits.

In increasingly fierce competition, retaining customers and promoting repurchase behavior is the foundation for creating and maintaining sustainable business performance. Therefore, customer loyalty is considered an essential goal for the survival and development of every business. Building a foundation of customer loyalty has become a major goal in marketing programs (Kotler and Armstrong, 2008) [28]; this is considered an important goal for the survival and growth of a business as well as an essential basis for developing a sustainable competitive advantage (Sirdeshmukh *et al*., 2002) [47].

Accordingly, the life insurance industry is no exception (Bieck *et al*., 2012) [4]. Customer loyalty is especially important to insurance companies because the cost of acquiring a new customer is not recovered until the third or fourth year of the policy if maintained (Zeithaml *et al*., 1996) [53]. However, the existing services marketing literature has extensively researched customer loyalty and revealed several antecedents of customer loyalty, such as the exploration of trust (Olsen, 2007) [40], service value (Caceres and Paparoidamis, 2007) [6], and most notably satisfaction (Garbarino and Johnson, 1999) [16]. However, studies explicitly addressing such loyalty related to the unique characteristics of the insurance sector still need to be discovered (Lee *et al*., 2007, Liu and Zhao, 2005) [32, 35].

2. Literature review

Perspectives on loyalty

Many contributions to the study of consumer purchasing behavior have been explored in many different fields, especially in studies of brands and customer loyalty. According to Jacoby and Kyner (1973) [25], "brand loyalty is (1) a bias, (2) a behavioral response, (3) expressed over time, (4) by a decision-making unit specific decision, (5) towards one or more other brands in a set of such brands, (6) and is a function of psychological processes (decision making, evaluation).

Customer loyalty refers to repeat purchasing behavior based on an individual's knowledge, emotions, evaluations, and behaviors (Jacoby, 1971) [24]. This loyalty is also associated with trust in an organization or service provider (Fournier and Yao,

1997) [15]. Mahamad and Ramayah (2010) [37] note that a loyal individual will purchase a larger quantity of a product without hesitation. Individuals give sincere suggestions on how the company can improve its products. Furthermore, a loyal individual will continuously purchase the company's products without switching to another brand.

Dick and Basu (1994) [11] divided customer loyalty into four types - true loyalty, implicit loyalty, fake loyalty and disloyalty. At the same time, Dick and Basu (1994) [11] also argue that customer loyalty is the strength of the relationship between an individual's relative attitude and repeat visits, influenced by social criteria and situational factors.

On the other hand, Oliver (1999) [39] classifies loyalty as cognitive loyalty, emotional loyalty, opinion loyalty, and action loyalty. According to Oliver (1999) [39], customer loyalty is a sustained commitment to repurchase a product or frequent a service consistently in the future, thus creating repeat purchases of a brand. Same brand or similar set of brands, even though situational influences and marketing efforts have the potential to cause behavioral shifts.

Coyles and Gokey (2002) [9] proposed different dimensions of loyalty and recognized three types—emotional, inertial, and intentional. Customer loyalty is measured by repurchase intention, word-of-mouth communication, and referrals.

Customer loyalty to a brand in general or a service brand such as a supermarket in particular, speaks to the tendency of customers to consume that brand and repeat this behavior (Chaudhuri, 1999) [8].

In personal relationships, loyalty implies a feeling or an attitude of devoted attachment caused by affection. Such attachment makes a person feel responsible for persevering with the relationship, even in adverse times. However, loyalty in commercial relationships involving a company and its customers signifies a subtly different meaning. Rundle-Thiele (2005) [45] explained this change in the sense of loyalty and argued that loyalty in business relationships does not constitute 'devoted commitment.' A customer may persevere in his relationship with the company and demonstrate loyal behaviors based on his trust in the brand. He defines loyalty as: "The state or quality of loyalty, where loyalty is defined as customer loyalty or adherence to an object." (Rundle-Thiele, 2005) [45].

Customer loyalty level

Yi (1990) [52], Hallowell (1996) [21], Homburg and Giering (2001) [23] note that initially, customer loyalty was considered a behavioral concept that included repeat purchases of products or services measured as purchase sequence or rate, referral introduction, relationship level, or all of the above combined. Bandyopadhyay and Martell (2007) [2] found that the behavioral concept of loyalty was insufficient to distinguish absolute loyalty from spurious loyalty and proposed that loyalty should be assessed through behavioral measures as well as base. Researchers such as Dick and Basu (1994), Jacoby and Kyner (1973), Oliver (1999) [11, 25, 39], and Bodet (2008) [5] emphasize the fundamental dimension of loyalty. Bandyopadhyay and Martell (2007) [2] noted the need to incorporate a fundamental component of loyalty, which was highlighted. Caruana (2002) [7] revealed that situational factors such as airline sources available, personal factors such as resistance to change, and sociocultural factors such as social bonds are what distinguish behavioral loyalty from substantive loyalty. In addition, Oliver (1999) [39] and Walsh *et al*. (2008) [51] defined loyalty as a "deep commitment to consistently repurchase or patronize a preferred product or service in the future, which causes purchases of the same brand or brand repeatedly, regardless of any situational influences and attentional efforts that can cause switching behavior". Baumann *et al*. (2011) [3] expressed loyalty as attitudes and behaviors Ladhari *et al*. (2011) [29] state that loyalty is a customer's continuous patronage of a particular bank, emphasizing the role of satisfaction.

3. Results and discussion

An overview of loyalty research shows that researchers have identified and tested many antecedents of customer loyalty to stores, companies, and brands. Wah Yap *et al*. (2012) [50] point out that the factors influencing customer loyalty have attracted much attention in recent years from researchers and marketers in the service industry. However, Guillen *et al*. (2008) [18] point out that there are few empirical studies on customer loyalty in the insurance sector.

Despite its importance, customer retention in the insurance sector was not a top priority for the study. It needs to attract the attention of financial services and marketing scholars (Lam *et al*., 2022) [30]. Research on this industry has favored studying financial and statistical factors, paying less attention to the driving forces behind customer demand for insurance products (Larsson and Broström, 2020) [31]. Guillen *et al*. (2012) [19] argue that there is growing interest in analyzing customer lifetime value and loyalty in the insurance sector, although few contributions of practical significance can be found. Product-oriented strategy still prevails in the insurance industry, and it directs research efforts toward studying financial and statistical aspects (Leiria, 2022) [33].

According to Robson (2015) [44], retention, cancellation, and loyalty are not among life insurance's most commonly researched topics. Surveys of consumer preferences in the insurance sector are infrequent (Schreiber, 2017) [46]. More recently, about online experiences, existing research has focused intensely on conversion as the sole outcome of the digital journey (Kannan, 2017) [27] while not considering the impact of loyalty in the long term (Venkatesan and Jacob, 2019, Petzer and Van Tonder, 2019) [49, 41], which is inconsistent with the importance of loyalty for the competitiveness of insurance company. It has been discovered that in financial services, especially in the insurance industry, a company's financial performance is closely linked to customer loyalty (Abdelfattah *et al*., 2015) [1]. A 5% increase in customer retention can increase profits by 25% to 95% overall (Larsson and Broström, 2020) [31], in insurance this importance can be even higher, considering a slight increase in retention rates can add millions of dollars to premium revenue (Günther *et al*., 2014) [20].

Durvasula *et al*. (2004) [12] and Rai and Srivastava (2013) [43] described life insurance services as highly intangible. Tsoukatos and Rand (2006) [48] point out that life insurance is mainly sold by insurance agents, who are the only point of contact for customers in most cases. According to (Gera, 2011) [17], customer retention is important for life insurance companies because long-term customer relationships lead to more cross-selling and positive referral intentions. Zeithaml *et al*. (1996) [53] point out that the insurance provider can only recover the costs of selling the insurance policy when the insurance policy is renewed for three to four years. Rahman *et al*. (2015) [42] suggest that high retention rates are correlated with better financial performance. Forming customer loyalty is a thorough process that includes a series of decisive customer judgments and other psychological variables derived from these service evaluations.

The customer attrition rate is a key business indicator for corporate insurance management (López-Díaz *et al*., 2017) [36]. Jeong *et al*. (2018) [26] highlight the positive effects of retention insurance buyers rely on a company's reputation for building good customer relationships, which can help attract new customers. De la Llave *et al*. (2019) [10] mention the adverse effects of customer loss on sales revenue due to the high costs of attracting new customers to replace those who have left and the reputation and the company's brand image. Because churners tend to give negative feedback about the company, it can negatively affect potential customers.

Customer longevity increases the value of the insurance company because long-term customers can purchase more policies from broader lines of business, requiring less time from the company. They also tend to be less sensitive to price changes and bring new things to customers (Mirzamohammadi and Hamid, 2019) [38]. Accordingly, insurance researchers should give much more emphasis to customer retention and loyalty.

Identifying the factors that explain switching behavior is key to an insurance company's strategic and management effectiveness (Leiria *et al*., 2022) [33]. Once these are identified, customer retention plans can be developed, and actions can be taken (Günther *et al*., 2014) [20]. Therefore, finding which customers are most likely to cancel insurance contracts is important in customer relationship management (Haugen and Moger, 2016) [22].

Research on customer loyalty in insurance has many characteristics that differ from research in other industries. In this industry, the production process is reversed, as revenue is earned before goods are provided and costs are incurred (Felício and Freire, 2016) [14], changing the nature of the relationship between customers and suppliers grant. Accordingly, management loyalty in the insurance industry has specific characteristics: For example, the differential impact on different lines of business, the increasing relevance of pricing for the decisions of customers, and the importance of intermediaries in customer choice.

With differences in service and product characteristics, loyalty in life insurance and insurance in general also has its characteristics. Guillen *et al*. (2008) [18] argue that it is important to monitor customer loyalty and business risk for life insurance companies for reasons such as access to information related to portfolio quality investing, effectively handling customer recruitment and retention strategies, assessing market competitiveness in the insurance sector and the company's position in that market.

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