

## The Relationship between Communication, Customer Knowledge and Customer Loyalty in Saudi Arabia Insurance Industry Companies

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### **Abstract**

*The main target of this article is to examine the relationship between communications, customer knowledge and customer loyalty in insurance companies in Saudi Arabia. This study adopted Partial Least Squares Structural Equation Modeling (PLS-SEM) to test the association between communication, customer knowledge and customer loyalty. The sample comprised of 399 from insurance companies in Saudi Arabia and data was obtained from questionnaires distributed to the sample. Moreover, the questionnaire was adopted from many authors as explained in methodology section. This article found a positive and significant relationship between communication and customer loyalty. In the same path, this study found that customer knowledge has a positive and significant effect on customer loyalty. Moreover, this study has significant contributions in the theoretical, practical and policy market that may be integrated together in order to improve customer loyalty. Finally, the limitation and future recommendations were provided at the end of this study.*

**Keywords:** *Communication, Customer Knowledge, Customer Loyalty, Health Insurance Provides In Saudi Arabia.*

### **1. Introduction**

In the service industry, particularly the insurance sector, suitable service quality delivery has a significant role to play in firm survival and performance (Urban, 2009). Service quality is also crucial in achieving the satisfaction of customers in almost all service industries (Zeng et al., 2010). In this background, owing to the increasing role of service firms in the economic development and in the competitive environment, it is important for service organizations including insurance firms to achieve service quality and to understand the gist behind service quality, customer expectations and fundamental quality characteristics (Al-Rousan and Mohamed, 2010). Hence, this study aims to investigate the Saudi insurance industry in terms of service quality antecedents and outcomes. Accordingly, this chapter is dedicated to the presentation of the study objectives.

Service quality has developed to become a top instrumental co-efficient in the dynamic competitive market. Hence, in order to succeed and survive in this environment, any economic enterprise needs to deliver quality service (Sandhu & Bala, 2011). In a related study, Kara et al. (2005) stated that the delivery of quality service is important for any business in order to survive and succeed in today's business environment. This is because once services delivered to customers are of high quality, this would ensure that these customers are satisfied with the services, and in turn would lead to the paramount goal of the company - customers' loyalty (Tsoukatos, 2007).

The association that lies among the factors of customer satisfaction, customer loyalty and quality of service is considered as the ground philosophy upon which service-oriented organisations, such as insurance companies, are

structured (Yang & Jolly, 2009; Malini, 2012; Rai & Medha, 2013). Consequently, it is the goal of service-oriented organisations not only to recruit new customers but more importantly to satisfy current ones and ensure that they are loyal to the services provided by these organisations taking into account that contemporary knowledge has it that the costs of getting new customers are much larger than simply maintaining the current customers through securing customer loyalty (Terblanche & Boshoff, 2006). However, a number of researchers have doubted the universality of the service quality-satisfaction-loyalty link and suggested that a number of other factors influence how this link operates in different environments and cultures (Yang & Jolly, 2009). This is why it is the objective of the present study to examine the impact of a number of antecedent and moderating factors that have been hypothesized to influence the provision of the insurance industry's provision of service quality.

The Saudi insurance industry is relatively new compared to those in other developing countries (Dar Mousa, 2012). Prior to 1970, the principle of insurance was largely rejected on religious grounds, and the few insurance activities were largely restricted to the oil industry. A major change occurred in 1983 with the development of the concept of cooperative insurance that made insurance more acceptable in terms of religion. This led to the establishment of the National Company for Cooperative Insurance (NCCI) in 1986, and reforms in Saudi Arabia's insurance industry began in the year 2004 (Ansari, 2011b). Privatisation then led to an expansion of the industry and increased competition. Local as well as foreign investments were permitted in March 2005.

The insurance industry's service quality is distinct from most services provided by different service-oriented organisations. In this context, it was argued by Chodhury, Rahman and Afza (2007) that the "insurance services can be described as a product in the form of a written legal contract (the insurance document) plus a bundle of services associated with it" (p. 55). The researchers further elaborated that service in the insurance industry is characterized by complexity, and future contingency that entails significant legal characteristics, which is why the insurance companies should look for ways to make sure that they offer tangible services. Among the challenges insurance companies have to deal with, include increasing providers' productivity – particularly those that cannot be separated from their products in order to promote quality standards and to enhance the demand situation, and provide capacities within service perishability. Thus, it is the responsibility of insurance service providers to inform, educate, motivate, persuade, and advise customers and service users about the services provided prior to, during and after the issuance of the insurance document. This is what makes the purchase of insurance and the quality of insurance services different from other products purchasing and from other services (Chowdhury, Rahman & Afza, 2007).

During the past two decades, global insurance markets witnessed increasing development where total written real premiums for the countries showed an 82% increase from 1997 at US\$1.6 trillion to 2004 at US\$2.9 trillion. Specifically, emerging markets have experienced considerable real growth in the insurance sectors in comparison to their developed counterparts (52% versus 27% from 1997-2004). Apart from that, with the global economic evolution, any country intending to play a crucial role in world trade should eventually eradicate the protection and limitations in the insurance industry. This is evident from the rules provided by the World Trade Organization (WTO) concerning financial service industries reforms, where developing nations should balance their survival goals with free trade. Financial service industries reforms should also heighten the global insurers' incentives to enter emerging markets as reforms primarily lessen the barriers of entry in local markets. Following their decision to enter a new market, global insurers would think of the most optimum way of entrance (Ansari, 2011).

In a related study, Cummins and Vernard (2008) attempted to analyze the considerable changes in the insurance markets in past two decades. Their study determined a number of challenges associated with the insurance markets worldwide. Some of these challenges are insurance institutions globalization, deregulation, intense competition, e-commerce and emerging new risks. These trends form barriers against insurance firms worldwide. The study demonstrated the insurance global trends such as the sophistication of insurance products, risk diversification globalization via reinsurance, the launching of mega-financial intermediaries, and the heightened significance of supranational agencies like the World Bank and the WTO. They concluded that regardless of these developments, there is still heterogeneity among the nations and regions. This heterogeneity profoundly affects insurance markets. Local differences were detected in the political, legal and cultural components and in financial markets, taxation, regulatory systems, strategies of insurer investment and systems of insurance distribution.

Communication refers to the ability to facilitate timely, trustworthy, and accurate information. Communication created by a good company is characterized by helpfulness, positivity, timely, usefulness, and pleasantness, with little to no effort expended by the customer to understand the communication and identify its use (Ball et al., 2004). This covers communication through personalized letters, direct mail, web-site interactions, and other machine-mediated interactions. It also covers communication through e-mail, in-person interactive communication between the firm and customers throughout the selling, consuming and post-consuming phases (Anderson and Narus, 1990; Ball et al., 2004). According

to Morgan and Hunt (1994), communication antecedes trust as opposed to loyalty. In the earlier phases, communication develops awareness, customer choices, convinces potential buyers and motivates purchase decision (Ndubisi and Chan, 2005). In the latter phases, communication entails maintaining interaction with customers regularly, providing accurate and timely information and service/product updates, and proactive interactions in case of issues.

Steadfast (2013) argued that insurance is a confusing industry as it is not easy to understand, particularly for regular and common customers. So, the potential for clients who are not very familiar with the rules, regulations and policies of insurance to make mistakes is a very likely to take place. This is why insurance companies normally hire insurance brokers whose job is not only providing customers with the best insurance policies available, but among their responsibilities is taking the time to offer their customers advice that will help them understand the insurance world better and not make any missteps along the way. Normally, insurance brokers have a vast knowledge of insurance rules, regulations and their policy wording and overall industry terminology. Thus, part of their job responsibilities is to transfer this type of knowledge and terminology that is related to insurance policies to their customers who have no idea whatsoever about the meanings and connotations of such terminology. For example, in the case of risk management, insurance companies should inform their clients whether through brokers or directly through different techniques of communication about the all the possible points of risk and the insurance policies that help account for such risks.

This study is aimed at investigating the relationship between communications, customer knowledge and customer loyalty in Saudi Arabian insurance companies. It attempts to achieve many targets; first, to bridge the gap in the existing literature that explores the relationship communication, customer knowledge and customer loyalty in the developing countries such as Saudi Arabia and second, to examine the association between communications, customer knowledge and customer loyalty in Saudi Arabia insurance companies. Finally, this study aims to provide practitioners and policy makers the way to determine and realize customer loyalty.

## **2. Literature Review and Hypothesis Development**

### *2.1 Communication and Customer Loyalty*

As far as the first antecedent factor of communication is concerned and from the viewpoint of service delivery, communication is the most important aspect since communication between employees from different departments of the insurance company and customers would be paramount in the process of achieving service delivery satisfaction (Friedman and Kelman, 2007). This is because when employees working for the insurance company take more effort and spend more time to address the questions of concerned customers, it can lessen many uncertain feelings.

Moreover, a study by Pickton and Broderick (2001) supported that the service component of communication is valued highly, as was shown in the in depth interviews that they performed on patients; the conclusion being that communication influences satisfaction levels of the consumer in a significant manner. In addition, Saaty (2011) addressed the importance of communication channels in ensuring a better service quality and in turn more customer satisfaction in the Saudi insurance context. Based on the above discussion, the hypothesis is formulated as follows;

H1: There is a positive relationship between communication and customer loyalty.

### *2.2 Customer Knowledge and Customer Loyalty*

It was argued that having knowledge about regulations will help customers know their rights so that they would not experience anger if they did not get a service, because they have knowledge that this service is not offered to them based on the rules and regulations. A previous study revealed that the consumer's decision to buy is significantly and positively influenced by knowledge of the product (Lin & Chen, 2006).

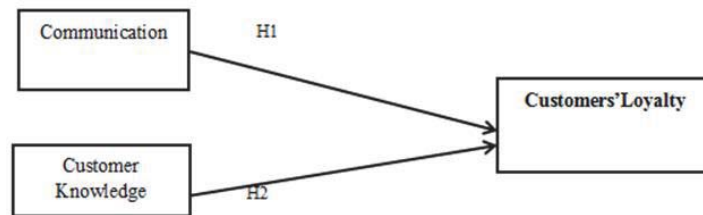
Lin and Chen (2006) believed that insurance industry is even different from many service-oriented industries as it involves many legal and official procedures that might not be known or even understood by customers. Thus, having knowledge about how insurance companies operate and the regulations that govern their practices could highly assist insurers and make them less worried about the regulations and procedures of the insurance policies. This means that it is the responsibility of the insurance companies to ensure that their customers understand more about the rules and regulations of their insurance policies and this would influence customers' trust in these insurance companies and in turn have a positive influence of their service quality perceptions (Sivesan, 2012). Based on previous discussion, the researcher proposes the following hypothesis;

H2: There is a positive relationship between customer knowledge and customer loyalty,

### 3. Methodology and Research Framework

To achieve the target of this article, the study adopted a questionnaire from previous authors to obtain the data from Saudi Arabia insurance companies in 2014. The data of this article comprised of 399 sampling. This study used Partial Least Squares Structural Equation Modeling (PLS-SEM) to run the relationship between independent variables and dependent variable.

Figure 1 shows the theoretical framework that displays the association between communication, customer knowledge and customer loyalty.



**Figure 1.** Research Framework

#### 3.1 Measurements of Instruments

In order to measure communication, customer knowledge and customer loyalty, this current study adopted measures from previous studies; in particular, communication measurement was adopted from Danaher and Rossiter (2011), customer knowledge measurement was adopted from Ensign and Gittelsohn (1988) and finally, measurement of customer loyalty was adopted from Yu et al. (2006).

#### 3.2 Testing the Measurement Model Outer Model Using PLS Approach

The entire items factor loadings are presented in Table 1 and they are all over 0.5 without correlation between the items. In addition, the values of composite reliability ranged from 0.895-0.941, which exceeded the recommended value of 0.7 by several researchers (Fornell and Larcker, 1981; Hair et al., 2010). As for Cronbach's Alpha, the values ranged from 0.844 to 0.921, which exceeded Fornell and Larcker's (1981) and Hair et al.'s (2010) recommended value of 0.7. Moreover, the values of the average variance extracted (AVE) differed from 0.680 to 0.760 and these reveal a good level of measures construct validity according to Barclay et al. (1995). The above results support the outer model's convergent validity.

**Table 1.** Convergent validity of the outer model

Variable	Items	Factor Loading	Cronbach's Alpha	CR <sup>a</sup>	AVE <sup>b</sup>
Communication	CC2	0.791	0.901	0.927	0.717
	CC3	0.880			
	CC4	0.885			
	CC5	0.839			
	CC6	0.835			
Customer Knowledge	CK1	0.805	0.844	0.895	0.680
	CK2	0.857			
	CK3	0.831			
	CK4	0.804			
Customer Loyalty	LY1	0.873	0.921	0.941	0.760
	LY2	0.912			
	LY3	0.891			
	LY4	0.776			
	LY5	0.900			

### 3.3 Discriminant Validity of the Measures

The measures discriminant validity was computed through Fornell and Larcker's (1981) method. Table 2 shows that the square root of the average variance extracted (AVE) for the entire constructs were placed at the correlation matrix diagonal elements. Because the diagonal elements were greater than the elements on the row and column where in they were placed, the discriminant validity of the outer model is supported. To summarize, as the outer model's construct validity is confirmed, it is deemed that the results of the hypotheses testing are valid and reliable.

**Table 2.** Discriminant Validity

Contracts	1	2	4
1) Communication	<b>0.847</b>		
2) Customer Knowledge	0.400	<b>0.825</b>	
3) Customer Loyalty	0.813	0.423	<b>0.872</b>

### 3.4 Goodness of Fit of the Model

The GoF value was estimated according to the formula in order to validate the PLS model. The GoF value was found to be 0.696. A comparison was then carried out based on the GoF measurement values, where 0.1 value is deemed as small, 0.25 as medium and lastly, 0.36 as large as recommended by Wetzels et al. (2009). Based on the result presented in Table 3, the model's goodness of fit measure was found to be large, which indicates adequate level of global PLS model validity.

**Table 3.** Goodness of fit

Contracts	AVE	R Square
Communication	0.717	
Customer Knowledge	0.68	
Customer Loyalty	0.760	0.673
AVR	0.719	0.673
GOODNESS OF FIT		0.696

### 3.5 The Structural Model and Hypothesis Testing

Following the establishment of the measurement model, the study hypotheses were tested by running the PLS Bootstrapping in SmartPLS 2.0. The cases numbered 399 and the samples generated 500. Figures 2 and 3 present the results.

**Table 5.** The Results of the Hypothesis Testing

Hyp No	Hypothesis	Path Coefficient	Standard Error (STERR)	T Value	P. Value	Decision
1	CC -> LY	0.766	0.020	39.107	0.000	supported
2	CK -> LY	0.117	0.028	4.217	0.000	supported

The figure indicates a positively significant relationship between communication and customer loyalty ( $\beta = 0.766$ ,  $t = 39.107$ ,  $p < 0.01$ ). In the same line, the result revealed that the association between customer knowledge and customer loyalty is positive and significant ( $\beta = 0.117$ ,  $t = 4.217$ ,  $p < 0.01$ ).

## 4. Discussion

### 4.1 Communication and Customer Loyalty

The finding is consistent with the proposed hypothesis that predicted a positive relationship between communication and customer loyalty. It is also consistent with prior studies that achieved the same results such as Pickton and Broderick (2001) and Saaty (2011).

## 4.2 Customer Knowledge and Customer Loyalty

Our outcome indicated that the customer knowledge has a positive and significant effect on customer loyalty. In the same path, this result supports the hypothesis that expected a positive relationship between customer knowledge and customer loyalty. This study is similar to prior studies that found a positive association between customer knowledge and customer loyalty like (Sivesan, 2012).

## 5. Conclusion, Limitations and Recommendations

This study investigated the relationship between communications, customer knowledge and customer loyalty in insurance companies in Saudi Arabia. This study used Partial Least Squares Structural Equation Modeling (PLS-SEM) to run the relationship between independent variables and the dependent variable. Moreover, the sample was comprised of 399 and it was obtained from questionnaire distributed in five main geographical regions in Saudi Arabia, namely Central Region, Easter Region, Western Region, Southern Region, and Northern Region. The results revealed a positive and significant effect between both communication and customer knowledge and customer loyalty.

Future research could add other variables such as Prior Experience and Information & Communications Technology (ICT) with customer loyalty. Moreover, future study could focus on the exploration of mediator variables such as service quality and customers' satisfaction between these variables. Moreover, studies could apply the present one in other sectors and other GCC countries. Finally, future research could take into account the investigation of the relationship through a moderator such as corporate image.

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