

# DEVELOPMENT OF A CUSTOMISED SCALE TO MEASURE SERVICE QUALITY IN THE LIFE INSURANCE INDUSTRY

*Antonio Lobo, Swinburne University of Technology, John Street, Hawthorn, VIC 3130, Australia, [alobo@swin.edu.au](mailto:alobo@swin.edu.au)*

*Subhash Mehta, School of Business, University of Southern Maine, [smehta@usm.maine.edu](mailto:smehta@usm.maine.edu)*

*Judy Rex, Swinburne University of Technology, [jrex@swin.edu.au](mailto:jrex@swin.edu.au)*

## ABSTRACT

The services marketing literature focuses on the measurement of service quality and its impact and consequences on businesses. This is important as service quality affects behavioural outcomes such as repeat purchases and loyalty. Professional services are credence products with very little tangible cues to signal quality. In developing an initial tool for the life insurance context, the 32 attributes of service quality were operationalised. Six dimensions were generated which were identified as Assurance, Personalised Financial Planning, Similarity with Agent, Tangibles, Corporate Image and Competence. A cross-section of 182 recent buyers of life insurance policies from different companies in Singapore provided data on the way they rated their respective Insurance Agents. This study revealed the need to include two types of expectations, i.e. MSS and MSA to identify critical gaps in service quality. It further substantiated the need to examine current tools in service quality measurements. The proposed exploratory instrument used here to measure the service quality of the life insurance industry could serve as a start for other studies in the professional services context. The implications of the results of this study to the services marketing literature in general and to the life insurance industry in particular are discussed.

## INTRODUCTION

The objectives of this exploratory study are to:

- develop a customised scale to measure service quality in the life insurance industry;
- develop a clear understanding of the dimensionality of service quality using the MSS, MSA and zone of tolerance approach in the context of life insurance services;
- provide managerial implications of the findings to quality standards and problems associated with the life insurance business in Singapore.

## METHOD

A modified SERVQUAL-type questionnaire relevant to the insurance industry was constructed by including items from the original five dimensions (Tangibles, Reliability, Responsiveness, Empathy and Assurance) of the SERVQUAL instrument developed and updated by Parasuraman *et al.* (1994). The items were refined and paraphrased in both wording and contextual application as appropriate to suit research purposes.

Next, in order to obtain an even more comprehensive and industry-specific measure of the service quality construct, an exploratory research based upon the consumer's point of view was conducted. A sample of 10 respondents (in a group) with previous insurance buying experience was subjected to a focus group discussion on the aspects of service quality they desired most in life insurance buying. Their

responses were augmented from current literature in order to draw a wider and more in-depth inventory of service quality items in the life insurance context.

Purposive sampling based on convenience sampling methods was utilised in the data collection process. It was a requirement that the respondents included must have purchased at least one life insurance product in the last one year from any agent and the exact product purchased should have been either a whole life insurance policy and/or an endowment policy. A total of 210 survey forms were distributed out of which 189 forms were returned (response rate of 90%) with 7 forms rendered unusable due to incomplete data, giving a final sample size of 182.

## **RESULTS**

The 32 items of the customised scale were factor analysed utilising the principal component approach, with eigenvalues greater than one as the criteria for the extraction of factors. Oblique (OBLIMIN) rotation was used, as the objective was to obtain several theoretically meaningful factors and also enable correlated factors to be rotated, given that realistically, very few factors are uncorrelated (Hair *et. al.*, 1998). In addition, reliability coefficients (alphas) of each dimension extracted from the analysis were computed to test for internal consistency of the grouping of the items. The initial factor loadings and reliability tests revealed a six factor structure. i.e. Assurance, Personalised Financial Planning, Similarity with Agent, Tangibles, Corporate Image and Competence.

Two interesting findings were that respondents had the highest level of expectations for “Competence” and “Assurance” while “Corporate Image” was held to be the lowest. The minimum level of service expected was also very high for “Competence” and “Assurance”. As expected, “Corporate Image” was not regarded highly by respondents who ranked this factor the lowest in minimum expectations. However, leeway for performance variation (zone of tolerance) was the least for “Corporate Image” while it was highest for “Tangibles”.

A comparison of the two expectation levels, (i.e. desired and adequate) and zone of tolerance on demographic data showed a few interesting patterns. First, the zone of tolerance decreased dramatically as the age increased. Independent t-test (one-tailed) revealed that zone of tolerance differed significantly ( $p=0.020$ ) between the two age groups of 30 years or younger and those above 30 years. The desired expectations also showed a significant drop ( $p=0.05$ ) as the age of the respondents increased.

Another point to note would be that highly educated policyholders tended to have higher expectations in terms of minimum and desired levels. However, comparison of means here did not yield significant results. Lastly, as income level increased, desired and adequate expectations increased correspondingly while the tolerance level dropped significantly. When the means between the three income groups were subjected to an ANOVA test, desired mean scores were significantly different ( $p=0.020$ ) between the three groups, while adequate service and zone of tolerance mean scores were not significantly different.

## **DISCUSSION AND IMPLICATIONS**

In developing an initial service quality measurement tool for the life insurance industry the six dimensions identified were Assurance, Personalised Financial Planning, Similarity with Agent, Tangibles, Corporate Image and Competence. Undeniably, the factors had many elements of SERVQUAL dimensions. However, this was expected as the SERVQUAL instrument has undergone rigorous testing and serves as an important platform for exploratory contextual investigations in service

quality measurements. Both Assurance and Competence had the highest desired and adequate expectations among the respondents, suggesting that expectations for these two dimensions were regarded by policyholders as the most crucial towards meeting service quality.

Interestingly, the dimension with the least tolerance for performance deviance was Corporate Image. A possible explanation could be that the components investigated in this dimension, i.e. financial stability and innovation in financial products, are widely recognised as the key success factors in this industry (Scott, 2000).

Based on the above discussion of the life insurance industry, two major managerial implications emerge. Firstly, growing evidence that expectations drive diagnostic evaluations of service quality by consumers means that managers can no longer afford to ignore consumer expectations or possess a one-sided view of expectations. Rather, context-specific examination of expectations is essential for managers to be able to assess and determine the precise level of both adequate and desired expectations. With such an understanding, more precise resource allocations could be determined as advocated by Walker and Baker (2000). This adds to the diagnostic value of having a multi-expectations framework as service shortfalls can be identified more accurately from the consumers' perspectives and control over meeting minimum or desired levels as required can be established.

Secondly, this study further substantiated the need to examine current tools in quality measurements. The proposed exploratory instrument used here to measure service quality in the life insurance industry could possibly serve as an incentive for similar studies in the professional services context. Implementation of competitive strategies based on findings of detailed service quality measurement prevents stretching of resources, and assists in satisfying and indeed delighting customers.

## REFERENCES

- [1] Berry, Leonard L. (1995), "Relationship Marketing – Emerging Perspectives in Marketing", Proceedings of the AMA Conference, pp 25-28.
- [2] Hair, Joseph F. Jr., Anderson, Rolph E., Tatham, Ronald L. and Black, William C. (1998), "Multivariate Data Analysis", Prentice Hall International Inc.
- [3] Parasuraman, A., Zeithaml, V. A. & Berry, L. L. (1994), "Reassessment of Expectations as a Comparison Standard in Measuring Service Quality: Implications for Further Research", *Journal of Marketing*, 58(January), 111-124.
- [4] Reinhardt, W. and Kumar, V. (2002), "The Mismanagement of Customer Loyalty", *Harvard Business Review*, July, pp 4-12.
- [5] Scott, Roman (2000), "Shaping the Future of the life Agency Force", *Coverage*, 22-26.
- [6] Sivadas, E. and J. Baker-Prewitt, (2000), "An Examination of the Relationship between
- [7] Service Quality, Customer Satisfaction and Store Loyalty," *International Journal of*
- [8] *Retail and Distribution Management*, 28(2), 46- 61.
- [9] Taylor, S.A. & Baker, T.L. (1994), "An Assessment of the Relationship between Service Quality and Customer Satisfaction in the Formation of Consumers' Purchase Intentions," *Journal of Retailing*, 70(2), 162-178.
- [10] Walker, J. and Baker, J. (2000), "An Exploratory Study of a Multi-Expectation Framework for Services", *Journal of Services Marketing*, Vol. 14, No. 5, 411-431.