SERVICE QUALITY, CUSTOMER SATISFACTION AND CUSTOMER REPURCHASE INTENTIONS IN THE AUTO INSURANCE INDUSTRY IN THAILAND

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Abstract

The insurance industry in Thailand has become increasingly competitive in recent years. The improvement of service quality, more understanding of customer satisfaction, customer loyalty and customer perception of corporate image, along with such issues as customer repurchase intention, have become critical in this competitive environment.

This study reviews the factors discussed in the literature which influence customer perceived service quality, customer satisfaction and customer repurchase intention in the auto insurance industry in Thailand. Secondly, the study shall examine the significance of service quality, using the SERVQUAL model. Next, a model of perceived service quality, customer satisfaction, customer loyalty, corporate image and customer repurchase intention, relating to the Thai auto insurance industry, will be developed and tested as an hypothesis. Moreover, the relationship between customer satisfaction and customer repurchase intentions will be examined to determine if the moderating variables, - switching cost, the image of insurance company, the size of the insurance company, customer loyalty, customer’s age, customer’s income and customer’s education background - impact on these relationships from a Thai customers’ perspective.

The results indicated that the assurance dimension was a key determinant of a customer assessment of service quality in the auto insurance industry in Thailand. A linear relationship between perceived service quality, customer satisfaction, perception of company image and customer repurchase intentions was found to have a positive significant relationship. The study

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also found that customer loyalty and customer satisfaction showed no significant relationship to each other. Lastly, the study found that the size of the insurance company and the switching cost were slightly significant in moderating the initial relationship between customer satisfaction and customer repurchase intention.

In recent years, service quality has been receiving considerable prominence in the literature because of its apparent relationship to customer satisfaction and repurchase intention. Service quality has been defined in terms of customer satisfaction: the degree of alignment between the customer expectation and collective perception of service received. Ultimately the customer, rather than the service provider, is determinative of what aspects of the service are the most beneficial (Babakus and Boller, 1992). Previously the complaint ratio, as a measure of customer dissatisfaction, might be an illustration of a performance score in the insurance industry, since it assesses company-level performance in terms of reduction of complaints. Similarly, Doerpinhaus (1991) first openly used complaint data as a quality indicator to investigate the variations in service quality across auto insurers. Since the insurance industry’s complaint index fails to distinguish between problem areas in service delivery, (since it only assesses reported numbers of complaints and not customer perceptions), (Stafford, et al. 1998) the distinct dimensionality of the SERVQUAL measure suggests its application here for a closer examination of service quality in the insurance industry. Furthermore, customer satisfaction and service quality remain critical issues in most service industries. For example, in the insurance industry, the key approach to differentiation, and the principal means by which one insurer can distinguish itself from another, is service before and after the sale of the policy (Stafford and Wells, 1996). Otherwise, it may not be possible to meaningfully differentiate between companies because insurance providers offer standardized state-mandated products (Roberts, 1993).

Therefore, the purpose of this research is first, to investigate the influence of the five SERVQUAL dimensions—tangibles, reliability, responsiveness, assurance and empathy—in service quality as outlined by Parasuraman, et al. (1991). This paper will then seek the relationship of the outcomes of this analysis of the SERVQUAL dimensions with reference to the customer satisfaction, customer loyalty, customer perception of corporate image and customer repurchase intentions relative to the auto insurance industry in Thailand. What emerges is a “revised” model with relevance to the auto insurance industry in Thailand.
Next, the relationship between customer satisfaction and customer repurchase intention was gauged to determine if the moderating variables—switching cost, image of insurance company, customer loyalty, customer’s age, customer’s income and customer’s education background—have an impact on these relationships from the customers’ point of view.

The balance of the paper is organized as follows. First, a brief review of the literature outlining the theoretical foundation of the research framework relative to the relationship of the five variables: customer perceived service quality, customer satisfaction, customer loyalty, perceptions of corporate image and customer repurchase intention, and related hypotheses. The methodology is then outlined. The results of this study follow and are discussed in detail. Finally, areas which could fruitfully form subjects for discussions, managerial implications and conclusions of this study are proposed.

Theoretical background and hypotheses

The theoretical basis of the model upon which the research framework is based (see figure 1) is derived from several sources. The service quality model developed from SERVQUAL by Parasuraman, et al. (1991) utilized four variables: customer satisfaction, service loyalty, perception of corporate image and customer repurchase intention. To this model, as indicated in Figure 1, I have added four additional variables.

There has been evidence suggesting that perceived service quality, customer satisfaction as well as service loyalty have been identified as key antecedents in service industries (Lewis, 1993). Parasuraman, et al. (1985) hypothesize that perceived quality of a service was a derivative of the expectation/perception gap of the consumer. In addition, Johnson (1987) defines service quality using the phrase “customer satisfaction” meaning the degree of match between customer’s expectation and perceptions of service. There have been other findings to suggest that the satisfaction will lead to higher repurchase intentions (LaBarbera and Mazursky, 1983).
Furthermore, some past studies have attempted to link service quality, customer satisfaction or customer repurchase intentions (Anderson and Fornell, 1994; Cronin and Taylor, 1992). Therefore, the relationship between customer satisfaction, customer loyalty, customer perception of corporate image and customer repurchase intentions, and their moderating effects on the relationship between customer satisfaction and customer repurchase intention, form the basis of the hypotheses in this study.

1. Customers’ expectations over perceptions of service quality

Customer perceived service quality is the level and path of difference between customer service perceptions and expectations (Parasuraman et al., 1985). In addition, if the customers assessment of a product and service performance exceeds their standard or level of expectation, this leads to satisfaction, while performance falling below this standard results in dissatisfaction (Wilkie, 1990; Wells and Prensky, 1996; Oliver, 1997). Further-
more, Oliver (1980) predicted that clients will judge quality to be low if performance does not meet their expectations. Perceptions of quality increase as performance equals or exceeds expectations.

2. SERVQUAL Scale
The five dimensions of service quality that were originally outlined in the SERVQUAL approach by Parasuraman, et al. (1988) are as follows:

1. Tangibles (physical facilities, equipment, and appearance of personnel);
2. Reliability (ability to perform the promised service dependably and accurately);
3. Responsiveness (willingness to help customers and provide prompt service);
4. Assurance (knowledge and courtesy of employees and their ability to inspire trust and confidence); and
5. Empathy (caring, individualized attention the firm provides its customers).

The model postulated by Parasuraman, et al. (1985) is widely used. A key aspect of this model is the customers’ determination of perceived service quality. The gap between expected service and experienced service are both directly influenced by the determinants of service quality which finally set the overall level of service quality satisfaction. The initial research of Parasuraman, et al. (1985) identified ten determinants and these were later condensed to five. The five determinants in the scale are tangibles, reliability, responsiveness, assurance and empathy.

3. Gap Analysis- Methodology for Measuring Service Quality
Parasuraman, et al. (1985 : 1988b : 1991), Lewis (1989) and Gronroos (1988) used the gaps between expectation and experience as a measure of service quality. Moreover, Parasuraman, et al. (1988) used this conceptualization in the construction of SERVQUAL - a twenty-two item scale that measures perceived service quality based on the difference between a consumer’s expectations of service and the consumer’s perception of actual performance. The first part of the SERVQUAL instrument consists of twenty-two items measuring expectations of customers and twenty-two similarly worded items measuring perceptions or experience of customers. Assessing the quality of service involves computing the difference between the rating customers assigned to the paired expectation/perception statements (Parasuraman, et al. 1991). This study is the first to examine the significance and importance of the five original SERVQUAL dimensions in predicting levels of perceived service quality and their influence on customer satisfaction in the auto insurance industry in Thailand. Therefore the following hypotheses emerge:
H1: All five dimensions of SERVQUAL model dimensions are drivers of customer satisfaction.

H1a: Tangibles have significant influence on customer satisfaction

H1b: Reliability has significant influence on customer satisfaction

H1c: Responsiveness has significant influence on customer satisfaction

H1d: Assurance has significant influence on customer satisfaction

H1e: Empathy has significant influence on customer satisfaction

4. Corporate Image

Grönroos (1984) described a firm’s image as how “customers see and perceive” that firm. The image consumers have of a service firm will have a direct positive effect on their future expectations and this will apply even if the customer is using the firm for the first time. (Clow, et al. 1991; Mazursky and Jacoby, 1980). Additionally, the image of corporate service is influenced by word-of-mouth communications between customers (Clow, et al. 1991; Grönroos, 1990). Positive word-of-mouth communications will have a positive consequence on a consumer’s image of a company, while negative word-of-mouth communications will have a negative impact on perception of corporate image. Further, there is evidence that “image” is significantly related to perceptions of quality (Darden and Schwinghammer, 1985; Stafford and Enis, 1969). Whereas, image will precede customer evaluations as these evaluations are components of image (Mazursky and Jacoby, 1986). Therefore:

H2: Perceived overall service quality has a significant effect on the corporate image

H3: Customer satisfaction has a significant effect on corporate image

H4: Customer perception of corporate image has a significant effect on customer loyalty

5. Customer satisfaction and service quality

Several researchers have found customer perceived service quality to be antecedent to satisfaction. Satisfaction has been described as a consumer’s post-purchase evaluation of a product or service, relative to pre-purchase expectations (Kotler, 1991). Further, Oliver (1980) argues that customer satisfaction generally arises from an individual’s comparison of actual product performance compared with performance expectations. Most researchers agree that satisfaction is an attitude or evaluation which is formed by the customer comparing their pre-purchase expectations of what they gain from the product related to subjective perceptions of
the performance they actually received (Oliver, 1980). Additionally, Spreng and Singh, (1993) state that high levels of service quality should result in highly satisfied consumers. Therefore:

**H5: Customer perceived overall service quality has a significant effect on customer satisfaction.**

6. Service quality and customer repurchase intentions

There are many studies about service quality antecedent to repurchase intentions (e.g. Cronin and Taylor. 1992). Moreover, Boulding, et al. (1993) found positive relationships between service quality and repurchase intentions. Indeed, Jones and Sasser, (1995) suggest that the application of satisfaction in service industries is driven by the assumption that a satisfied customer will return for a repurchase. Furthermore, Cronin and Taylor (1992) identified a correlation between service quality and customer preference loyalty focused solely on the relationship between perceived service quality and repurchase intentions. Similarly, customer orientation has been found to be related to customer service perceptions and outcome behaviors (Brady and Cronin. 2001). Therefore:

**H6: Customer perceived overall service quality has a significant effect on customer repurchase intention.**

7. Customer satisfaction and customer repurchase intention

In general, it is considered that levels of satisfaction determine the likelihood that consumers will pay for the service again (Szymanski and Henard. 2001). Moreover, LaBarbera and Mazursky (1983) propose that customer satisfaction will be factored into stronger repurchase intentions and customer loyalty (Butcher, et al. 2001). In addition, previous research indicates that satisfaction has a positive influence on repurchase intentions regardless of the service offered by the provider (Taylor and Baker. 1994).

As stated earlier many studies have reported a direct positive relationship between customer satisfaction, customer loyalty and repurchase intention (Bolton. 1998 ; Cronin and Taylor. 1992 ; Fornell. 1992 ; Oliver. 1980). These studies established that overall customer satisfaction with a service is associated with customer loyalty and repurchase intention. Therefore:

**H7: Customer satisfaction has a significant effect on the customer loyalty**

**H8: Customer satisfaction has a significant effect on the customer repurchase intention.**

**H9: Customer loyalty has a significant effect on customer repurchase intention.**
8. The effect of the three moderator variables on the relationship between customer satisfaction and customer repurchase intentions.

Although past research has looked at the drivers of customer satisfaction associated with customer repurchase intention, what has not been tested in the context of auto insurance companies in Thailand is the extent to which the moderating variables - switching cost, image of insurance company, the size of the insurance company, customer loyalty, customer’s age, customer’s income and customer’s education - have an impact on this relationship. Therefore:

H10: Moderating variables will moderate the relationship between customer satisfactions and repurchase intentions

H10a: Switching cost will moderate the relationship between customer satisfactions and repurchase intentions

H10b: Corporate image will moderate the relationship between customer satisfactions and repurchase intentions

H10c: Size of insurance company will moderate the relationship between customer satisfactions and repurchase intention

H10d: Customer loyalty will moderate the relationship between customer satisfactions and repurchase intention

H10e: Age level of customer will moderate the relationship between customer satisfactions and repurchase intention

H10f: Income level of customer will moderate the relationship between customer satisfactions and repurchase intention

H10g: Education level of customer will moderate the relationship between customer satisfactions and repurchase intention

Research Methodology

A questionnaire survey was used to collect quantitative data across the auto insurance sector in Thailand. The questionnaire was pre-tested on twenty customers before it was applied to collecting data. Customers who held an auto insurance policy in Thailand were surveyed. Randomly selected samples from the customer database of three auto insurance companies in Thailand were used. The mailed self-administered questionnaires were sent to all respondents who were randomly selected.

1. Questionnaire development

The questionnaires were posted to the selected sample group to be completed by them and returned via pre addressed envelopes. The SERVQUAL scale developed by Parasuraman, et al. (1991) was used to examine predictors of perceived and expected performance and to measure levels of satisfaction with the auto insurance sector in Thailand. The tool of measurement was a general
7-point Likert scale. The questionnaire consisted of three parts for data collection. The first part of the questionnaire included the twenty-two expectation and the second part included perceptions items from Parasuraman, et al. (1988) SERVQUAL scale. SERVQUAL requires the customer to rate a provider’s performance on a Likert scale extending from (1) extremely low to (7) extremely high.

In the third part of the questionnaire, customers were asked to rate their overall satisfaction with their auto insurance company. Next, the customer had to rate their past loyalty by indicating the frequency of renewal of their auto insurance policy with the same insurance company. The customer was also asked to rate their perceptions of corporate image and their intention to repurchase (renew) their auto insurance policy with the same company in the future.

The sampling process began by randomly selecting 2,100 names of customers who were auto insurance policy holders with three insurance companies in Thailand (700 from each company). Of two thousand one hundred questionnaires posted out, four hundred and thirty eight questionnaires were returned by the respondents but thirty two were eliminated as unusable; four hundred and six questionnaires were used to analyze data. The response rate was 19.3 percent. According to the 2002 Annual Report of the Insurance Department of the Commercial Ministry of Thailand, (2002) the number of policy holders of auto insurance policies was 18,610,479. Since Krejcie and Morgan (1970) suggested that given a population size of 1,000,000, or over the sample size should be three hundred and eighty four, the total of six hundred and four responses used represents an appropriate sample size.

Data Analysis and Results

Initially, the twenty two items of expectations and perceptions used to test the hypotheses were collapsed into five dimensions (tangibles, reliability, responsiveness, assurance and empathy). The composite reliability for internal consistency was demonstrated for twenty two items of expectations and perceptions were .90 and .96 which was generally accepted as very good reliability.

In the regression results for each of the twenty two items, expectations matched their respective perceptions, and individual gap scores could be calculated. Additionally, most SERVQUAL studies have been based on gap analysis (the difference between expectations and perceptions of performance). Consistent with the SERVQUAL approach items were summed and averaged within each dimension. Individual dimension scores were then used as predictor variables in regression mod-
els to determine which of the five elements of SERVQUAL significantly related to the overall measures of service quality and perceived service quality. In testing H1, it was found that standardized path coefficients relating to reliability associated with customer overall satisfaction, was statistically significant. Perceived service quality related to reliability dimension path was significant to the 0.05 level which showed support for H1b. Significantly, the results also indicated that in the Thai auto insurance industry, reliability dimension was the most important influence on customer satisfaction. On the contrary, there were no significance relationship between tangibles, responsiveness, assurance and empathy dimensions and customer satisfaction, thus, H1a, H1c, H1d and H1e were not accepted.

To test the relative relationship between perceived overall service quality, customer satisfaction, customer loyalty perception of corporate image and customer repurchase intention, a Pearson correlation was conducted. As Sekaran (2000) suggested, a Pearson correlation coefficient is appropriate for interval and ratio-scaled variables. As hypothesized, the outcome indicated that perceived service quality has positive relationships with customer satisfaction (H5). Perceived service quality also has a positive relationship with customer repurchase intention (H6) and with perception of company image (H2) at 0.05 significant level. Therefore, H2, H5 and H6 were supported.

Furthermore, the result of the Pearson correlation also produced evidence to support the hypothesis that customer satisfaction has a significant positive relationship with both customer perception of corporate image (H3) and with repurchase intention (H8). On the other hand, there was no evidence to support the relationship between customer perceptions of company image and the relationship between past loyalty (H4), and customer satisfaction (H7). Similarly, Andreassen and Lindestad (1998) could not find a significant link between satisfaction and loyalty in the package tour industry. However, the results also showed a positive relationship between customer loyalty and customer repurchase intention which indicated that H9 was supported.

Regression analysis was then undertaken hierarchically to test for significant interaction effects over and above the simple effects of the independent variables in the hypotheses with respect to the moderating variables (Aiken and West. 1991 ; Irwin and McClellan. 2001). However, H10 posited that moderating variables will moderate the relationship between customer satisfaction and customer repurchase intention. However, the results indicated that switching cost , the size
of company and customer loyalty, as moderators, had a significant positive impact on customer repurchase intentions, confirming the moderating effects of switch cost and size of insurance company at 0.05 level; hypothesis H10a, H10c, and H10d respectively. There were no major indicators to suggest that the corporate image, customer’s age, customer’s income and customer’s education background influenced the relationship between customer satisfaction and customer repurchase intentions. There was no significance of company image, customer’s age, customer’s income and customer’s education background as a moderator in initial relationship, therefore, H10b, H10e, H10f, and H10g were not accepted.

1. The research model relationship revisited

In the first of relationship revised, the attributes are included customer perceived service quality concerned with dimensions of SERVQUAL - tangibles, reliability, responsiveness, assurance and empathy- to customer satisfaction in auto insurance section in Thailand. All the attributes loadings to the indicator variables were not significant at 0.05 level, which did not support the overall factor structure of the model. All except the one path which, offered significant relationship between customers perceived quality of reliability dimension to customer satisfaction. However, the link between customer perceived service quality of tangibles, responsiveness, assurance and empathy, dimensions were not significant influence on customer satisfaction; therefore, the study suggested that the model fit could be improved by removing all these non-significant paths.

The proposed model further tests the link among the perceived service quality and four key variables, which included satisfaction, perception of corporate image, loyalty and repurchase intention of the customer in auto insurance section in Thailand. All the variables found significant relationship at 0.05 level except the link between customer loyalty and perception of corporate image and, the link between customer satisfaction and customer loyalty which were not significant. Therefore, the relationship testing suggests that model could remove these two paths. The next relationship revised, relative effects of seven moderating variables to the relationship between customer satisfaction and customer repurchase intention were tested. To explore this, regression analysis was performed, again using customer repurchase intention as the dependent variable, but including the customer satisfaction and seven moderating variables-switching cost, cooperate image and size of auto insurance company- as independent variables. It was decided to remove the corporate image, customer’s age, customer’s
income and customer’s education as moderating variable from the model. It was found that there was no evidence to support these four paths.

Consequently, it is suggested that switching cost, size of auto insurance company and customer loyalty need to be included as part of moderating variables to moderate the relationship between customer satisfaction and customer repurchase intention. That is, the customer will consider switching cost and size of auto insurance while they decide to repurchase (renewed) auto insurance policy.

Several minor changes to the proposition model were also presented. A summary of the relationship revised of model is provided in figure 2. A model with these paths removed as mentioned as above was statistics tested with the total data, but there were no change in the fit attributes which found significant relationship.

Up to now, the remaining relationships were demonstrated in figure 2. The relationship revised of model was therefore retained as the best analytical model as follows:

**Figure 2  Relationship Revised**
Discussions

This research is the first to utilize the SERVQUAL measurement model in the context of perceived service quality in the insurance industry in Thailand. In this study, the regression results showed that “reliability” emerged as the most critical determinant of perceived service quality influenced on customer satisfaction in the auto insurance industry in Thailand. Such findings are inconsistent with the work of Stafford, et al. (1998) who found that assurance was the most critical dimension of service quality. Similarly to the original work of the SERVQUAL researchers who found that “reliability” was the most critical dimension (Parasuraman, et al. 1988b). However, the low rating of the tangibles dimension on perceived service quality may indicate that tangibles, such as appearance of physical facilities, equipment, personnel and communication materials, may be the least important dimension to auto insurance customers in Thailand.

The study found that perceived quality of service by customers in the auto insurance industry in Thailand influences customer satisfaction. The finding also clearly shows that perceived overall service quality and customer satisfaction influence repeat purchase behavior. This supports the work of Ljander and Strandvic (1995) who studied models of the relationship between customer satisfaction and repeat purchase behavior and focused on the benefits of using a service. This is consistent with the work of Spreng and Singh, (1993), who found that the high levels of service quality result in highly satisfied consumers. Furthermore, this study also found perceived service quality by customers affects customer repurchase intention. Consistent with the work of Boulding, et al. (1993) this study found positive relationships between service quality and customer repurchase intention.

In general, the relationship between perceived service quality and customer satisfaction to corporate image was confirmed. Consistent with the work of Ostrowski, et al. (1993), this research demonstrated that continuous service experience co-creates the corporate image. It was clearly shown that the positive relationship between the corporate auto insurance image in Thailand depends on customers perceived service quality and customer satisfaction levels. An explanation for this might be that those customers who have higher levels of satisfaction and perceived higher quality of service of auto insurance companies might perceive a higher positive image of auto insurance companies in Thailand. In addition, this study found that a customers’ past loyalty has a positive relationship to customer repurchase intentions. Customers who had a high frequency of auto insurance renewals indicated a higher intention to renew
their auto insurance policy again with the same company. On the contrary, customer loyalty was not affected by customer satisfaction and the corporate image. This might show that the high frequency of renewed auto insurance policies did not influence customer satisfaction or improve perception of image of insurance companies in Thailand.

Lastly, the results obtained indicated that the moderating variables could influence the relationship between customer satisfaction and customers repurchase intention. The moderating variables (particularly switching cost, size of insurance company and customer loyalty) could impact customer repurchase intention. Slightly thereby lowering customers’ satisfaction influenced on customer repurchase intention.

**Conclusions and Managerial Implications**

Service quality, customer satisfaction, customer loyalty, corporate image and customer repurchase intentions are key factors in marketing. The outcome of this research suggests that the insurance industry would be better served to focus on the quality of service reliability dimension and not merely on customer satisfaction. A consideration of the underlying factors relating to reliability may be of assistance to insurance industry marketers to improve customer satisfaction and customer retention rates. Losing a customer entails a decline in sales volume by insurance companies. Moreover, new customers need to be wooed by even more intense marketing activity. It is suggested that gaining new customers is more expensive than serving current customers (Heskett, et al. 1990)

The level of service delivery in the auto insurance industry in Thailand could be refocused to improve customer satisfaction and thereby ensure higher customer retention. Unless auto insurance companies in Thailand adjust and adapt to the changing competitive environment, characterized by intense rivalry, they will not survive in commercial terms. The results of this study suggest that auto insurers in Thailand should now concentrate on providing superior levels of reliability by improving the company’s ability to perform the promised service dependably and accurately. In contrast, the results indicated that the “tangibles” dimension, the physical appearance of the auto insurance office, or the appearance of the service provider were not as important to auto insurance customers as assurance issues. However, tangibles which relate to physical facilities, equipment, personnel and promotional and informational materials, should not be neglected by the company but should, I suggest, be given a lower priority.

In the terms of these research findings, the auto insurance industry in Thailand
should seek to increase customer satisfaction by more effective marketing strategies that promote service quality as these appear to be the key factors which influence intention to renew an auto insurance policy.

Further Research
Parallel or comparative studies of the auto insurance industry in the neighboring countries. Examination of the range of service provider industries could be undertaken using the cross-sectional and longitudinal data analysis used in this paper.

References


