

# Evaluating the Relationship between Service Quality and Customer Satisfaction in the Australian Car Insurance Industry

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**Abstract.** Recently, the number of people who look for car insurance is growing rapidly since having car insurance contract for drivers and car owners is compulsory in many areas around the world. Moreover, the high quality service in this specific industry has become an essential issue for company management bodies because by serving high service quality and having customer satisfaction, companies are able to make profit. Since these issue play critical role for the insurance companies so, evaluating the relationship between these features can help the managers to meet customers' needs better than other competitors within the industry. The purpose of this study is to assess the relation between service quality and customer satisfaction in the Australian car insurance industry. As the current study intends to realize the various relations among these variables, the research analysis includes the correlation study between the constructs. For gathering the data, an online questionnaire was distributed and totally, 384 individuals who reside in the Melbourne, Australia responded the questionnaire. The results indicate that good relationships exist between five service quality dimensions (reliability, empathy, assurance, responsiveness, and tangibility) and customer satisfaction also there is a strong relationship between service quality and customer satisfaction with the correlation coefficient  $r^2=0.866$  at the 0.01 level (2-tailed). Similar study could also be broadening to other financial service sectors, other industries or even different insurance types in different countries to help businesses improve their service performance.

**Keywords:** Australia, Car Insurance, Customer Satisfaction, Service Quality

## 1. Introduction

Nowadays, most people choose various insurance policies to protect themselves and their properties. Due to different reasons, people pursue for several insurance types according to variations available such as property, health, medical and car insurance. Car insurance is generally imposed by the authority for those who owns and drives vehicles and was established in the early 1900s, and has been applied since. It is now mandatory in most residences around the world. In Australia, it is compulsory when buying a car with a loan to buy a comprehensive insurance which can compensate for potential loss or damage to the car as well as any damage incurred to others. In addition, companies are using different marketing strategies to attract new clients and successfully differentiate from other competitors, and compete with rivals by raising their market shares and increasing profitability. They invest in Marketing, Sales, Distribution, Research and Development, and other functional departments to meet customers' needs better.

Some companies use defensive strategies to protect their current customers (Roberts, 2005; Lotayif, 2006). Although other marketing strategies are also beneficial, research demonstrates that defensive strategies can be more worthwhile because brings higher profit for companies than strategies focusing on market share expansion or cutting cost. Thus, companies within the insurance field such as other areas must pay particular attention to this matter to achieve long lasting relationships with customers and keep them. Customers are clearly more pleased with high quality service, and when a company gains the customers' satisfaction, profitability is ensured hence, assessing their relationship can be beneficial for the managements in the companies. In spite of the results of relationship between service quality and customer satisfaction only limited studies have been conducted on investigating and measuring these factors in various industries.

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Therefore, this study aims to fill this gap. Consequently, the purpose of this research is to assess the relationship between service quality and customer satisfaction in the Australian car insurance industry. Thus, this empirical study should answer the following research question: Is there any relationship between service quality and customer satisfaction in car insurance industry in Melbourne?

## **2. Literature Review**

### **2.1. Service Quality and Customer Satisfaction**

The service quality theory is considered one of the most debated subjects in service literature (Ooi, et al., 2011) since it lacks agreement when it comes to describing and defining service quality (Gupta, et al., 2005). Service quality is a focused evaluation reflecting the customer's perception of specific service dimensions including reliability, responsiveness, assurance, empathy, and tangibility (Zeithaml & Bitner, 2003). Furthermore, Customer satisfaction is one of the main areas of interest in marketing, business and the academic world (Tikkanen & Alajoutsijau, 2002). According to Peter and Olson (1996), and Howard and Sheth (1969), customer satisfaction is “the degree to which a consumer’s repurchase expectations are fulfilled or surpassed by a product or service.” Customer satisfaction is known to be one of the most important and serious issues towards success in today’s competitive business environment, as it affects company market shares and customer retention (Ooi, et al., 2011).

In today’s changing world, developed economies are becoming service oriented, meaning that customer impressions play a critical role in this field. A company delivers services to customers, while overall customer attitude towards the company is defined in the relationship between service quality and customer satisfaction. Different research was done on the positive relationship between service quality and customer satisfaction. In the other words, if service quality decreases quickly, customer satisfaction declines dramatically and if service quality grows radically, customer satisfaction rises rapidly too. Some researchers have tested the inspiration of service quality and customer satisfaction. An assessment model suggested by Woodside et al. (1989) emphasizes on the relationship between perceived service quality, customer satisfaction and interest in purchasing. This research shows that customer satisfaction is an intervening variable of service quality and repurchases interest. In other words, service quality influences customer satisfaction, and customer satisfaction affects repurchase interest.

In addition, Cronin and Taylor (1994), Rust et al. (1995), Zeithaml et al., (1996), Gabarino and Johnson (1999) and Fullerton and Taylor (2000) documented that behavior trends demonstrate the effect of service quality on customer satisfaction. Moreover, other research has been carried out on the relationship between service quality and customer satisfaction, a connection which has received a good deal of attention in literature (Bolton & Drew, 1994). However, the vast majority of articles attempting to examine this relationship are of non-experimental nature (Iacobucci, et al., 1995). Therefore, through experimental design and qualitative techniques, in one of the few empirical studies on this relationship, Iacobucci et al. (1995) determined that the main variance between service quality and customer satisfaction is that quality relates to managerial service delivery, while satisfaction reflects customers' experiences with that service. This relationship between service quality and customer satisfaction is also presented in research carried out by Bitner et al. (1994) and Anderson et al. (1994). They proposed that advanced service quality results in high customer satisfaction, and also suggested that to a large extent, this relationship is intuitive. According to the previously mentioned items, service quality results in customer satisfaction, the main concept found in business and marketing literature.

### **2.2. The Australian Insurance Industry**

These days, insurance is becoming an inseparable part of life. The Australian insurance industry is one of the most sophisticated and highly developed insurance markets in the world. According to Swiss Re, World Insurance Australia is now ranked 12th globally in terms of premiums and 4th in the Asia-Pacific region. With respect to Australian Insurance Industry structure, the Insurance Council of Australia (ICA) is positioned at the top of the structure and operation of the Australian insurance industry and representing body of the general insurance industry in Australia. ICA members supply 37.8 million insurance policies and handle 3.5 million claims annually (ICA, Submission no. 311, p. 1.). The Australian Insurance industry

divided into three categories forming the insurance market core, namely life, general, and health insurance. Most large insurance companies concentrate on all types of insurance, whereas some companies have broadened their reach to offer more general financial services to clients. As other types of insurance, car insurance requires quality as a key role in achieving customer satisfaction. Moreover, research has demonstrated that quality of service and achieving customer satisfaction are significant for the survival of insurers. In addition, service quality has become the most important factor for both maintaining existing portfolios and acquiring new business (Tsoukatos, et al., 2004).

### **3. Research Methodology**

#### **3.1. Research Design**

Research is a process of steps used to gather and evaluate information in order to increase understanding on an essential topic. It consists of three steps, namely posing a question, collecting data to answer the question, and presenting an answer to the question (Creswell, 2009). The research design for the current study refers to a quantitative form. This research concentrates on the relationship among variables more than on testing activity impact, and uses correlation design. Based on the described research objective, this study will adopt a correlation design. Correlation design allows us to predict an outcome and know the relation between variables.

#### **3.2. Research Instrument, Population and Sample Size**

In this research, data are collected by a five-point Likert scale questionnaire which we applied in two earlier studies to measure service quality and investigation on the level of customer satisfaction in the mentioned area (Mansouri & Sheikh Ahmad, 2012) and we used Cronbach's Alpha for reliability. According to these studies, the questionnaire has reliability. Moreover, we used internal validity which includes the lecturers' points of view, as well as the specialists' and statistics experts' in the current study.

In addition, population in this research includes of customers who used car insurance in Melbourne. According to the Australian Bureau of Statistics, there are 49 active car insurance companies in the investigated region so, the target population includes of all individuals who used different services in car insurance companies. Since, the population is very large therefore; sample size was needed for data collection. The target population is a group of individuals with some common defining characteristic that research can identify and study (Creswell, 2009). So, a sample is a target population subgroup which the researcher plans to study to make a generalization regarding the target population. Furthermore, we used random sampling among a great deal of insurance companies in Melbourne, out of which 40 were chosen according to the Morgan Table (Morgan, et al., 1970). Furthermore, we used cluster sampling among the chosen car insurance companies. Cluster sampling gives the same opportunity for car insurance companies and finally, we used simple random sampling in each company for distributing the questionnaire. For research sample size, we used the Morgan table. According to this table research sample size is 384 participants.

### **4. Data Analysis**

After collecting data, we should evaluate the relationship between service quality and customer satisfaction in Australian car insurance industry. Service quality contains of five dimensions, namely tangibility, reliability, responsiveness, assurance, and empathy (Parasuraman, et al., 1988). Also, service quality is a predictor and customer satisfaction is a criterion variable. Based on analysis of the collected data and using description statistics for demography, it was found that most respondents were male at 60.4% and the most of the research participants (49.7%) are aged between 25 and 40. Additionally, most people (48.2%) have some undergraduate education level and most respondents are married (58.9%). Results also demonstrate that 10.2% participants have an income higher than AUS\$100,000, annually whereas 43.5% of respondents in this investigation have an income between AUD 50,000 – AUD 75,000. Furthermore, it was found that among all respondents 75.5% do not have any problems with their insurance providers because of high service quality.

Moreover, to achieve to the research objective the relationship between service quality and customer satisfaction should be assessed, and for this, the Pearson correlation was utilized. There is a relationship between service quality and customer satisfaction, with a correlation coefficient of  $r^2=0.866$ . Thus, there is a mutual relationship between service quality and satisfaction, and the correlation coefficient  $r^2=0.866$  is at the 0.01 level (2-tailed). This relation is positive, meaning an increase in service quality resulting in higher customer satisfaction.

Table 1: Correlations between satisfaction and service quality

		Satisfaction	Quality
Satisfaction	Pearson Correlation	1	0.866**
	Sig. (2-tailed)		0.000
	N	384	384
Quality Service	Pearson Correlation	0.866**	1
	Sig. (2-tailed)	0.000	
	N	384	384

\*\* . Correlation is significant at the 0.01 level (2-tailed).

According to the earlier study, all service quality dimensions are in good relation to satisfaction, as well as with each other. Results show that among the dimensions, responsibility ( $r^2=.849$ ) has the highest relationship to satisfaction. According to the table Standardized Coefficients, reliability is 0.837, empathy is 0.820, assurance is 0.811 and tangibility is 0.220 and all affect customer satisfaction (Mansouri & Sheikh Ahmad, 2012).

## 5. Conclusion

Car insurance is one of the fastest growing kinds of insurance and it is in high demand since it is mandatory for car owners and drivers in most states to buy this particular insurance. Moreover, service quality and customer satisfaction guarantee profitability, and they play pivotal roles for companies within this industry, consequently.

### 5.1. Discussion on Research Objective

To reach the research objective, the relationship between service quality and customer satisfaction in the Australian car insurance industry was assessed. The Pearson correlation was utilized to evaluate this relation. First, the relationship between service quality and customer satisfaction was assessed and it was seen that there is a mutual relationship between these two elements, with a correlation coefficient of  $r^2=0.866$  at the 0.01 level (2-tailed). This relation is positive and increasing service quality results rising customer satisfaction. This means the higher level of service quality results more customer satisfaction and vice versa. The results are consistent with the earlier findings and have supported and broadened literature published in earlier studies in various industries such as banking, education, and communication, in different counties (Tahir & Abu Bakar, 2007; Yunus, et al., 2009; Ogunnaike & Olaleke, 2010; Mokhtar, et al., 2011).

### 5.2. Research Implications

Company management bodies should further investigate to better understand how their clients think and respond because they are seeking to improve their customers' satisfaction levels to increase retention rate. This research was carried out for Melbourne, and could help draw beneficial conclusions valuable for both customers and insurers.

### 5.3. Direction for Further Research and Limitations

Population in this research comprises car insurance customers in Melbourne. It does not cover other type of insurance or other major cities of Australia. Other limitation is that it only relies on questionnaire as a measurement tool to service quality and satisfaction and not covering other possible tools. Relative to the total customer population particularly if considering all other type of insurance, the number of respondents should be higher to obtain more accurate data. Therefore, wider sampling can be used for future studies. For

future studies, work can be done on other financial service sectors, other industries or even different insurance types such as life insurance, property insurance, and health insurance in different countries and state with various economic levels.

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