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**THE INTERMEDIARY ROLE OF INSURANCE SERVICE INNOVATION IN THE
RELATIONSHIP BETWEEN SERVICE QUALITY AND CUSTOMER LOYALTY (A
STUDY OF THE BRANCHES OF PARSIAN INSURANCE IN MASHHAD CITY)**

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ABSTRACT

The purpose of this research is to study the intermediary role of insurance service innovation in the relationship between service quality and customer loyalty (a study of the branches of Parsian Insurance in Mashhad City). Therefore, with reference to the previous studies, dimensions and components related to the research variables were defined and based on these variables, a questionnaire concerning 72 questions was designed; the elites of management have confirmed its validity. The statistical population includes all the customers of the branches of Parsian Insurance of Mashhad City and sample size is 384 people. Moreover, structural equation modeling has been used to test the hypotheses of this development research. The results, particularly, suggest that insurance service innovation mediates the relationship between service quality and customer loyalty.

**Keywords: insurance service innovation, service quality, customer loyalty, Parsian
Insurance of Mashhad City**

1. INTRODUCTION

Nowadays, service activities either alone or along with manufacturing are the main factors of competitiveness in the world

economy. Customer service includes all the matters a firm employ in order to satisfy its customers (policyholders) and help them get

the most value from products or services they have purchased. (Rousta, 2010) The development and expansion of insurance industry in the society and its extension to the various sections have been well-received by people from all walks of life including both producers and consumers. Due to the rapid growth of economic enterprises, rapid changes, environmental uncertainty, and some other issues, the matter of innovation in organizations such as insurance industry, has become very important. This is one of the biggest social needs for the development and growth of those companies that have appropriately embraced this matter. Innovation can be seen as the element of dynamism for an organization that is effective in improving organizational performance. In terms of technical momentum and global competition, the ability of insurance companies to develop and offer new services has a crucial bearing on the industry's long-term performance. To stay in the field of global competition as one of the country's perspectives, it is necessary to implement such a matter. Insurance companies are the most important economic sectors of society and the development of the companies using innovative approaches, would guarantee a good economic future for the society. Each insurance company should

create a culture of innovation and creativity and consider a strategy for becoming an innovative and creative organization. Therefore, they should realize that those activities that are necessary for implementing the model of factors affecting innovation are one of their most basic needs and they have to try to find solutions. (Sehat and Mohammadpour, 2011)

2. Problem statement

Due to the rapid growth of economic enterprises, rapid changes, environmental uncertainty, and some other issues, the matter of innovation in organizations such as insurance industry, has become very important. (Lee, 2009:217) Innovation in service firms, including the insurance industry, is a relatively new issue that has been raised over the past two decades and a vast literature regarding it, is taking shape. Nowadays, all the attempts of firms to increase the quality and gain competitiveness are to get more customers and keep them. In insurance companies, insurers should realize who their policyholders are, what their needs are, and what factors affect the policyholders' loyalty. Identifying these factors and meeting the expectations of insurers are very important to insurance companies, because satisfied policyholders are considered a source of profits for insurance companies. A

company that fails to keep its customers satisfied, "will not remain in the long term." (Ranjbaran, 2009) In regard to insurance companies that somehow are the seller of services for their insurers, this issue is also true. On the other hand, satisfied policyholders due to their positive network influence on insurance companies are very important; because the positive network effect of satisfied policyholders is greater than those advertisements that the insurance company does by itself. Nowadays, many managers have found that they must provide goods and services in order to meet the expectations of their customers (policyholders) and satisfy them. In other words, all organizations from the highest level to the lowest level should serve their buyers. Previous studies indicate that the quality of insurance services would lead to loyalty and ultimately would increase the profitability of insurance service organizations. (Karateb et al, 2005) Tough competition in various fields, has threatened the survival of organizations and they need to have special skills. Permanent and growing offer of new goods and services would be the result of these competitions and it represents a continuous survival. (Dehqani and Hemmati, 2004:169)

These days, by being attached to high production capacity and the implementation of a creative design, organizations cannot overcome small, flexible, innovative, opportunist, and low-cost competitors. They must provide conditions in order to develop the talent and creativity of their staff so they would be able to gain an innovative spirit; therefore, they would implement their innovative activities easily, continuously, individually, or collectively. Innovation and creativity are requirement and precursor to the development of an organization and the society, and being aware of their materials and techniques, seems an inevitable necessity for directors, employees, and interested researchers. The increase of innovation in organizations would improve the quantity and quality of services, reduce costs, prevent waste of resources, reduce bureaucracy, and thus increase the efficiency and productivity, create motivation and job satisfaction, and ultimately it would cause loyalty and customer satisfaction. (Hosseini, 2008:43) According to the above, there are few studies in the field of innovation services and the main question is: does insurance service innovation mediate the relationship between service quality and the loyalty of the customers of Parsian Insurance in Mashhad City?

3. The significance of issue

Without a doubt, having satisfied customers is one of the indices of performance and that is why supplying customers' needs and demands is one of the primary goals of different organizations. (Sharaj Sharifi, 2011) In fact, in today's world, organizations would be successful if they could provide customer satisfaction at a higher level; because the customer is the most important asset of any organization. (Kazemi and Mohajer, 2009) This has been acknowledged that the level of customer satisfaction, marks the success or failure of any organization and firms cannot ignore customers' expectations and demands. All their activities and abilities should lead to customer satisfaction. In general, regarding importance of customer satisfaction and its role in the success of organizations, there is general agreement. The question, however, is how customer satisfaction can be improved? In this regard, many models to explain and describe the factors affecting customer satisfaction have been provided. Innovation and its realization in organizations is one of the issues that have attracted attention in recent years. The issue here is financial investment and managers and employees' serious consideration and attention; which has been considered less in Iranian firms. Perhaps one of the reasons is that managers

have not been convinced of the results and benefits of innovation and they believe that investment in this area is not affordable. Unfortunately, in the area of innovation, little research has been done in the country. The aim of this study is to discuss the role of innovation and examine the influence of "service innovation" on service firms, or often its impact on the level of perceived service quality and customer satisfaction of insurance companies will be measured in the form of more specialized concept.

4. Research hypotheses

Hypothesis 1: there is a significant relationship between insurance service quality and the loyalty of the customers of Parsian Insurance in Mashhad City.

Hypothesis 2: there is a significant relationship between insurance service quality and insurance service innovation.

Hypothesis 3: there is a significant relationship between the insurance service innovation and the loyalty of the customers of Parsian Insurance in Mashhad City.

Hypothesis 4: there is a significant relationship between insurance service quality and customer loyalty given the intermediary role of the variable of insurance service innovation in the branches of Parsian Insurance of Mashhad City.

5. Research background

Abedi and Tirandaz (2014) have a research named “the role of service innovation in improving the quality level of services and customer satisfaction in the insurance industry.” For this purpose, 483 individuals were randomly selected among insurance companies and the data were collected through a questionnaire. Afterwards, using regression analysis and path analysis, the data were analyzed. The results suggest that service innovation, especially in terms of functional role as well as customer satisfaction, plays a significant role in improving service quality.

Ahmadi and Jamshidi Navidi (2013) studied the relationship between the dimensions of service quality and customer lifetime value. In order to achieve this goal, based on the conceptual model of the research, the relationship among the dimensions of service quality (reliability, empathy, tangibles, responsiveness, and assurance) and loyalty, and the relationship between loyalty and customer lifetime value were hypothesized. Moreover, through a questionnaire, the required data among statistical society including the customers of the branches of Bank Saderat – the sample size is 483 people – were randomly collected and the Pearson correlation coefficient was used to test them. The results show there is a significant and

positive relationship between the dimensions of service quality and customer loyalty. Reliability variable has the greatest relation to customer loyalty and responsiveness, empathy, tangibles, and assurance are placed respectively in the subsequent positions. Moreover, there is a positive and significant relationship between loyalty and customer lifetime value; with an increase in customer loyalty, lifetime value also goes up and this can play an important role in increasing the profitability of the organization.

Ahmad Motlaghi and Saremi (2013) measured customer satisfaction regarding the service quality of customer relationship management in Bank Mellat (central branch) of Khorramabad City. The statistical society of this study includes the customers of Bank Mellat in Khorramabad City. Sampling was done in this study randomly and 40 customers were selected – 35 of them were investigable. Data were collected by a questionnaire and the data analysis was performed using SPSS software; to analyze the data, indices such as mean, standard deviation, and frequency were used. The results suggest that the customers of Bank Mellat of Khorramabad City estimate the service quality of Bank Mellat in Khorramabad City is positive; because their average response to the items of customer

satisfaction regarding banking services in Bank Mellat of Khorramabad City is 4/09. At the end, some suggestions concerning the results and findings as well as recommendations for future researchers will be offered.

Festus Mepetimehin (2011) concluded in his research that creativity and innovation in offering new innovative services is an important factor in order to meet the needs of the customers. Creativity and innovation in pricing and technological distribution and promotion in attracting new customers, is important. Moreover, the availability of marketing information for innovation and creativity either by knowing the services offered by the insurance companies or the establishment of research and development unit to achieve new technologies, seem necessary. Finally, it is beneficial to have a

strategy to improve services for error correction, to keep customers satisfied, and to attract new customers.

Marshal and Norman (2010) had a research named “the relationship between key factors: commitment, customer loyalty, and customer lifetime value”. They concluded by strengthening the sense of commitment of customers to organizations, their loyalty will increase, therefore, it would improve customer lifetime value and ultimately increase the organizations’ profitability.

Bartolet (2007) in his research titled “service quality of restaurants in China” employed SERVQUAL model to examine the quality of services offered by restaurants; he realized that service quality and customer satisfaction are related to each other.

6. Conceptual model of the research

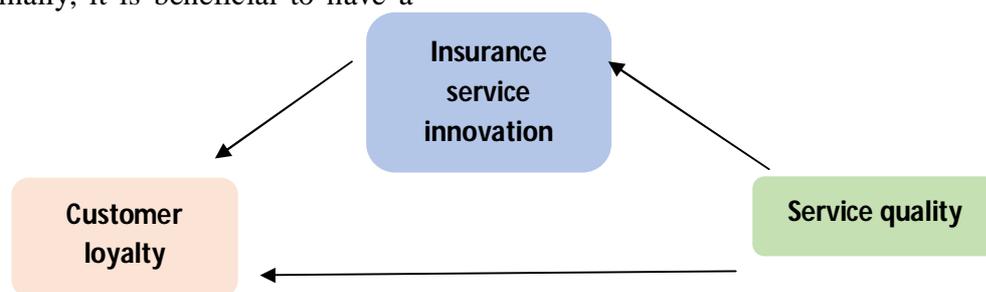


Fig. 3: Conceptual model of the research (Abedi and Tirandaz, 2014)

7. RESEARCH METHODOLOGY

This research is practical in terms of purpose and it is a descriptive survey concerning the nature and method. Information on the concepts of employee motivation were

gathered through library, books, and papers. The statistical society of this research includes all the customers of Parsian Insurance in Mashhad City. Sampling of this study is simple random sampling. Since the

number of all the customers of the branches of Parsian Insurance in Mashhad City is more than 1000 people, the number of the sample members based on Morgan table is considered 384 individuals. To collect statistical information and data of this study, a questionnaire was used. The validity of this study, was approved by the elite. Moreover, since SPSS and LISREL software will be

used for data analysis, the sample size will be determined in accordance with the software.

According to the table 1 above, for all the variables measured, the amount of Cronbach's alpha is higher than 0.7 and it is believed that the questions of the questionnaire possess a good internal consistency.

Table 1: Reliability of the questionnaire

Cronbach's alpha	No. of items	Questionnaire
0.88	24	Service quality
0.76	20	Insurance service innovation
0.77	28	Customer loyalty

8. Data analysis

8-1. Estimation of the model hypotheses

As mentioned earlier, 72 questions for studying the intermediary role of insurance service innovation regarding the relationship between service quality and the loyalty of the customers of Parsian Insurance in Mashhad City were used. To build the model, structural equation modeling and LISREL software were used. Moreover, in order to examine the validity of the proposed variables in the model, confirmatory factor analysis was employed; standard coefficient, significance level, and explained variance were calculated. Since the significant figure of the questions of the questionnaire is more than 1.96, its validity is confirmed. When the data of sample group becomes correlation matrix or covariance, and being described by

a set of regression equations, we can analyze the model in order to evaluate its fit in a society that it has come out. Some estimation of the model parameters and some sizes to fit the model with sample data will be achieved.

In this section, we are going to study the significance of the model figures; In conjunction with the significant figures, it must be said that since in this study, hypotheses testing has been done at 95% confidence level – 5% error level – figures more than -1.96 and +1.96 will be considered significant for t-test. This means that figures between -1.96 and +1.96 in the t-test, would be considered insignificant.

Therefore, based on the model in the state of significant figures (fig. 4) and standard coefficient estimation (fig. 5), we will be testing the research hypotheses.

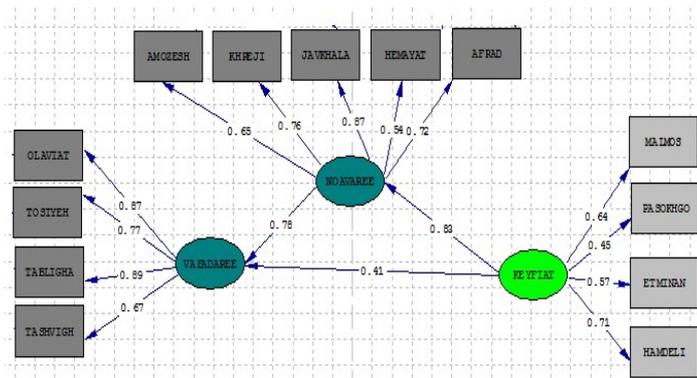


Fig. 4 - Structural equation modeling (standard coefficient)

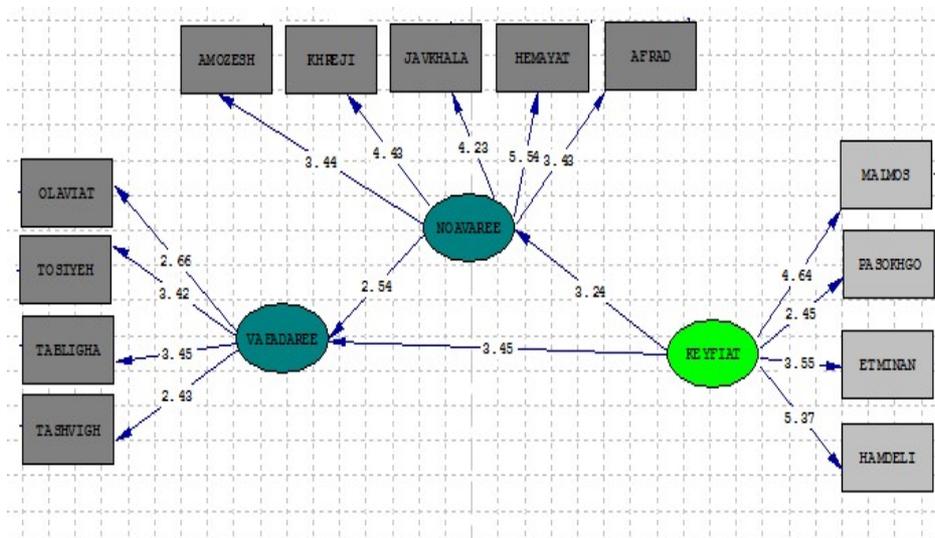


Fig. 5 - Structural equation modeling (significant figures)

Table 2 – standard coefficients, significant figures, and hypotheses testing of the model

Result	Significant figures	Standard coefficient	Path
Approved	15.2	0.647	Hypothesis 1: there is a significant relationship between insurance service quality and the loyalty of the customers of Parsian Insurance in Mashhad City.
Approved	3.24	0.83	Hypothesis 2: there is a significant relationship between insurance services and insurance service innovation.
Approved	2.54	0.78	Hypothesis 3: there is a significant relationship between insurance service innovation and the loyalty of the customers of Parsian Insurance in Mashhad City.
Approved	3.45	0.41	Hypothesis 4: there is a significant relationship between insurance services and customer loyalty given the intermediary role of the variable of insurance service innovation in the branches of Parsian Insurance of Mashhad City.

0/78 * 0/83

8-2. Evaluation of the goodness-of-fit

Through multiple criteria of goodness of fit, the overall credibility of the conceptual model will be tested systematically. That means on one hand, in the structural equation, the compliance of the data and conceptual model of the study will be evaluated in order to find out if the model possesses a good fit or not, and on the other hand, the significance of the relationships in this fitted model will be tested. Appropriate indices to verify the goodness of fit are: X^2/df (Chi-square to degrees of freedom), RMSEA (Root Mean Square Error of

Approximation), GFI (Goodness-of-fit Index), and AGFI (Adjusted Goodness of Fit Index). A model has a good fit if its X^2/df is less than 3. The closer GFI and AGFI are to 1, the better fit the model has. Finally, RMSEA for good models must be less than 0.08.

According to the indices presented and by comparing them with a desired value for a fitted model, the model has an appropriate goodness-of-fit. Given the table (3), the goodness-of-fit of the structural model is approved.

Table 3: Goodness-of-fit of the research model

Statistic of the main hypotheses	Acceptance criteria	Fit index
1.7	$\chi^2/df \leq 3$	(Chi square) χ^2
0.052	RMSEA<0/08	¹ RMSEA
0.97	NFI>0/90	² NFI
0.98	CFI>0/95	³ CFI
0.86	AGFI>0/85	⁴ AGFI

9. CONCLUSION

The quality of insurance services implies the overall impression of the customers of the way of serving. Service quality shows that a customer, generally, believes to what extent the organization and its service quality are in accordance with his overall wishes. The results suggest that insurance service innovation significantly affect the perceived quality. It seems that insurance service innovation has an influence on different aspects of quality, such as time, saving time

and money, the way it deals with customers, providing better facilities, type of personnel behavior, etc. Therefore, it would improve the functional aspects of the quality of service. In fact, Innovation often improves the situation and this improvement will be followed by higher quality services.

Also, if it is applicable to innovation in relation to technical quality of service – such as speed or ease of providing compensation – it can be effective in improving the perceived quality. In general, it seems that diversity in

services and creativity in delivery of services, would improve the customer perception of service quality. Customers evaluate the components of innovation as one of the determining factors for service quality. The results also indicate that insurance service quality – regarding the intermediary role of service innovation – will lead to customer loyalty. Perceived quality can meet obvious and hidden (secret) needs of customers and their assessments of quality, allow more

favorable attitude towards the organization and their incentives to interact with the organization will increase. The results of this study also support this matter; what clients have understood about the overall quality of the services of the organization, will be a basis for them to determine their satisfaction and loyalty. So generally speaking, the service innovation will be followed by customer loyalty.

Result	Background of the previous studies is consistent with the hypothesis	Summary of the test	Row
Aligned	Abedi and Tirandaz (2013) Ahmadi and Jamshidi (2013)	The main hypothesis: there is a significant relationship between insurance service quality and customer loyalty given the intermediary role of insurance service innovation in the branches of Parsian Insurance of Mashhad City.	1

Table 4 – the compliance of the research results with previous studies

According to the research results, some recommendations are as follows:

- ❖ Insurance companies should pay attention to the innovation issue, especially in terms of services
- ❖ Paying attention to the innovation issue, particularly in the implementation process of quality improvement programs
- ❖ Offering new services, especially those services that are not provided by competitors. This helps to improve customer satisfaction with the quality of service

- ❖ Encouraging employees to improve the components of service and offer proposals regarding the completion of current services or to modify them

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