

INCOMaR 2013

Determinant of Customer Loyalty in Malaysian Takaful Industry

Lailatul Faizah Abu Hassan^{a,*}, Wan Jamaliah Wan Jusoh^b, Zarinah Hamid^b

^a*Faculty of Business Management, University Teknologi MARA, 42300 Bandar Puncak Alam, Malaysia*

^b*Kulliyah of Economics and Management Sciences, International Islamic University Malaysia, 53100 Kuala Lumpur, Malaysia*

Abstract

The Malaysian Takaful industry is considered a growing industry with significant progress and continues to play an important socioeconomic role within the economy. In the new global economy, service providers are competing to develop and retain customers through increased satisfaction and loyalty. To achieve this aim, customer knowledge has been increasingly recognized as a key strategy in managing customer relationships. Organizations sometimes are not aware of what actually goes on in a customer's mind. This study is aimed to investigate the factors influencing customer loyalty among Malaysian Takaful customers. It focuses on the relationships among customer relationship management, customer satisfaction and customer loyalty. The population of the study will consist of customers who have subscribed to the Islamic insurance products and services. Self-administered questionnaires are distributed to eight Takaful companies in Malaysia as a study setting for this study. Structural Equation Modeling (SEM) is applied to test the constructs' relationships. It is expected that findings from this study will contribute to the existing literature to both theoretical and managerial approaches in order to better understand the pattern of customer knowledge management, customer relationship management and customer lifetime value, especially in Takaful industry settings.

© 2014 The Authors. Published by Elsevier Ltd. This is an open access article under the CC BY-NC-ND license (<http://creativecommons.org/licenses/by-nc-nd/3.0/>).

Selection and peer-review under responsibility of the Organizing Committee of INCOMaR 2013.

Keywords: Customer Loyalty; Customer Relationship Management; Malaysia; Satisfaction; Takaful Industry

1. Introduction

In the new global economy, service providers are competing to develop and retain customers through increased

* Corresponding author. Tel.: +6-03-3258-5070; fax: +6-03-3258-5168
E-mail address: lyla8433@gmail.com

satisfaction and loyalty. Customers who have a strong relationship with a service provider represent a major source of profit. Thus, in order to improve strategies in maintaining the customers, we have to understand their behaviours, investigate their needs and wants (Peppers & Rogers, 2004). Recently, Jamil & Aryaty (2010) highlights service provider's utilized relationship marketing as a strategy to maintain long term relationship with current and also potential customers.

Malaysia is the only country with a specific Takaful Law and the demand for Takaful products, both life and non-life has been huge (Patel, 2008). In general, Takaful services are not fully accepted and subscribed by the Islamic community themselves due to lack of awareness of Takaful roles in their lives and their economy. One of the contributory determinants to this absence of awareness among Muslims is the lack of understanding of Islamic product and services (Mohd Razif, 2011).

So far, there is limited research on customer relationship management and its impact on customer loyalty and to the best of the author's knowledge no study has investigated an outcome in an Islamic insurance environment from a relationship marketing perspective. There may be a tendency for customers to switch from conventional insurance to Islamic insurance or vice versa due to their past relationship with their service providers or when the customers perceive that there are no other alternatives available to them.

Therefore, the overall objective of this study was to validate the hypothesized interrelationships among the constructs of customer relationship management, customer satisfaction and customer loyalty among policyholders of Takaful companies in Malaysia. In addition, the study also examined the likely mediation effect of customer satisfaction on customer relationship management and customer loyalty relationship.

1.1. Takaful Industry

It is a generally accepted view that Islamic insurance was first established in the early second century of Islamic era when Muslim Arabs started to expand their trade to India, the Malay Archipelago and other countries in Asia. Due to travel / long voyage, they often had to suffer heavy losses as mishaps and misfortunes or robberies along the way. Based on Islamic principles of mutual help and cooperation in good and noble action, all the dealers agreed to contribute to a fund before they begin their journey. These funds were used to provide compensation to anyone in the group that suffered losses through any mishap. This was later copied by Europeans who later used to develop the concept of marine insurance.

Takaful is an Islamic insurance concept which is based on Islam muamalat (banking transactions), to comply with the rules and regulations of Islamic law. This concept has been practiced in various forms for over 1400 years. It comes from the Arabic word Kafalah, meaning "the guarantee of each other" or "joint guarantee" against certain losses.

Basically, there are two types of takaful, that is family takaful and general takaful. Several critical factors namely, agency system (al-wakalah), reputation of takaful operators, products and services, marketing and advertising of takaful products, are found to be the main determinants for family takaful demand (Arifin, Yazid, & Sulong, 2013).

1.2. Evolution of the Malaysian Takaful industry

As the Malaysian authorities became comfortable with the growth and regulation of the Islamic market, the Government introduced further legislation to allow other conventional banks to offer Islamic products through their designated premises.

According to Fisher (1999), Takaful is the second most important social institution in the Islamic community to counter poverty and deprivation. The Takaful is operated as an enterprise providing services on a self sustaining model rather than as a charity.

According to Yon Bahiah, Siti Zaleha and Norshahidah (2009), although the Malays are aware of Takaful, they are not convinced that it is what they need for financial planning. On future Takaful needs, Takaful operators may need to look for innovative products for protection, education and investment purposes (Yon Bahiah et al., 2009).

As a caring and customer oriented organisation, Takaful companies are continually upgrading their products and services via new channels to attract customers (Mohd Razif, 2011). However, the issue such as lack of awareness and understanding of Takaful roles in the economy and people lives en-tail the Islamic community themselves not fully accepting and subscribing to Takaful products and services (Koid, 2007; Mohd Razif, 2011).

A clear understanding of customers' needs is important to help the Takaful industry to be proactive in providing customers with reliable products and services.

Based on the research background and motivations that explore if relationships exist between CRM, customer satisfaction and customer loyalty based on the customer's viewpoint, the following describes the research objectives of this study:

- To investigate the influence of CRM on customer loyalty.
- To investigate the influence of customer satisfaction on customer loyalty.
- To examine the role of customer satisfaction as mediating variable in the relationships between customer relationship management (CRM) and customer loyalty.

2. Literature Review

2.1. Customer Relationship Management

Swift (2001) suggest that CRM is a company in which the behavior of trying to understand and reach customers through full interaction; moreover, it is a business strategy that increases customer loyalty and profits.

Customer relationship management (CRM) has become one of the leading business strategies in the new millennium. It is difficult to find out a totally approved definition of CRM. It can be described as 'Managerial efforts to manage business interactions with customers by combining business processes and technologies that seek to understand a company's customers', i.e. structuring and managing the relationships with customers (Kim, Suh, & Hwang, 2003). CRM covers all the processes related to customer acquisition, customer cultivation, and customer retention. Even though we put aside the existing studies, which assert that it costs more to acquire new customers than to retain the existing customers, we can imagine that customer cultivation and retention are more important than customer acquisition because lack of information on new customers makes it difficult to select target customers and this will cause inefficient marketing efforts.

2.2. Customer Satisfaction

Wills (2009) pointed out that it costs five times more to acquire a customer than to retain an existing customer, and that if the loyalty of customers can be raised by 5% a corporation can obtain 25–85% more profit (Kerin, Hartley & Rudelius, 2009; Reichheld & Sasser, 1990). Therefore, the importance of keeping valuable and existing customers exceeds that of finding new customers. How to establish a fair and subjective method of measuring customer satisfaction has become a very important academic and practical issue (Kotler & Keller, 2006; Wills, 2009).

Lam & Burton (2006) affirm that customer satisfaction has often been suggested to be the leading determinant of loyalty. Ehigie (2006) reported that there is a significant positive relationship between customer satisfaction and customer loyalty/retention. As such, customer satisfaction in this research is acting as a mediator between service quality and customer loyalty.

2.3. Customer Loyalty

Several earlier studies identified that the cost of retaining the current customers is five times much cheaper than

acquiring for new customers (Reichheld 1996, Peppers & Rogers, 2004). According to Dekimpe, Steenkamp, Meelens and Abeele (1997), there are two dimensions of customer loyalty namely behavioural and attitudinal.

According to Dick & Basu (1994) and Oliver (1999), a consumer is loyal if s/he has a strong attitude to certain suppliers over its competitors. Attitudinal loyalty leads to loyal buying behaviour and positive word-of-mouth (Reichheld & Sasser, 1990).

Behavioural loyalty represents the actual behavioural responses expressed over time. The measure of behavioural loyalty is operationalized on the basis of attitudinal loyalty statements, but modified to describe actual repurchase and recommend behaviour rather than intention (Rosidah, 2005).

Loyalty is conceptualised as a combination of customer's favourable attitude toward the service and intention to re-purchase the service (McDonald, 1996; Oliver, 1999; Kim & Cha, 2002; Wu & Li, 2011). The majority of the earlier studies on loyalty define it as the repeat purchasing of a particular service or product (Homburg & Giering, 2001). The goal of the customer relationship management (CRM) is to increase customer loyalty.

3. Methodology

3.1. Research design and instrument

For this study we used primary data by means of a questionnaire for collection of data. Questionnaires were distributed personally to selected respondents and it took 20 minutes to answer. The items were adapted from previous studies with appropriate changes to make the items more relevant to the present study.

In addition, the question items were designed according to theory and literature, and examined and corrected by experts. Their constructive comments provided a basis for refinement to the construct measures. Responses to these items were made on a seven-point Likert scale which ranged from 1 = "strongly disagree" to 7 = "strongly agree" as illustrated in Table 1.

Table 1. Measurement of study variables

| Construct | No of items | Source |
|---|-------------|--|
| Customer Relationship Management | 12 | Keeney (1999); Ming and Chen (2002); Wu and Li (2011) |
| Customer Satisfaction | 7 | Ndubisi (2006); Sanchez-Garcia et al. (2007); Whitten and Green (2007); Wu and Li (2011) |
| Customer Loyalty | 6 | McDonald (1996); Kim and Cha (2002); Wu and Li (2011) |

3.2. Selecting Sample

The main objective of this research is to identify the key driver of customer loyalty in the Takaful industry in Malaysia. Therefore, the sample for this study was selected from the eight Takaful companies in Malaysia. These Takaful operators are Syarikat Takaful Malaysia Berhad, Etiqa Takaful Berhad, Takaful Ikhlas Sdn. Bhd., CIMB Aviva Takaful Berhad, Prudential BSN Takaful Berhad, HSBC Amanah Takaful (Malaysia) Sdn. Bhd., MAA Takaful Berhad and Hong Leong MSIG Takaful Bhd. Anderson et al. (1998) suggested that the sample size of 100-200 is adequate for the structural equation modelling.

The target population of this study is people who have obtained any Takaful products or services from Malaysian Takaful companies more than two years.

4. Results and Findings

4.1. Demographic Profile of the Respondents

Overall a total of 150 questionnaires were distributed and 100 usable questionnaires were returned, yielding a response rate of 66.7%. There are more female (60%) than male respondents (40%). Out of this group of respondents, the majority of them were aged between 36 – 45 years old (54%). Obviously, 78% are married and 52% of the respondents worked in the government sector. The remaining 35%, 10% and 3% of the respondents worked in private sector, non-governmental sector and self-employed respectively. The majority monthly income of the respondents were between RM4,001 – RM5,000 (25%) and investment and saving based on Shariah compliance was the main concern of taking Takaful policy (56%). The demographic profile of respondents is presented in Table 2.

Table 2. Demographic profile of respondents

| Demographic Information | | Frequency | % |
|--------------------------|------------------------------------|-----------|----|
| Gender | Male | 40 | 40 |
| | Female | 60 | 60 |
| Age Group | <25 years | 1 | 1 |
| | 26-35 years | 35 | 35 |
| | 36-45 years | 54 | 54 |
| | 46-55 years | 10 | 10 |
| Marital Status | Single | 20 | 20 |
| | Married | 78 | 78 |
| | Divorced | 1 | 1 |
| | Widowed | 1 | 1 |
| Income Group | Less than RM2,000 | 8 | 8 |
| | RM2,001 – RM3,000 | 17 | 17 |
| | RM3,001 – RM4,000 | 12 | 12 |
| | RM4,001 – RM5,000 | 25 | 25 |
| | RM5,001 – RM6,000 | 13 | 13 |
| | RM6,001 – RM7,000 | 7 | 7 |
| | RM7,001 – RM8,000 | 8 | 8 |
| | RM8,001 – RM9,000 | 3 | 3 |
| | RM9,001 – RM10,000 | 3 | 3 |
| More than RM10,000 | 4 | 4 | |
| Occupation sector | • Government | 52 | 52 |
| | • Private sector | 35 | 35 |
| | • Non-government sector | 3 | 3 |
| | • Self-employed | 10 | 10 |
| Takaful company | • Etiqa Takful Berhad | 57 | 57 |
| | • Syarikat Takaful Malaysia Berhad | 13 | 13 |
| | • Takaful Ikhlas Sdn Bhd | 7 | 7 |
| | • Prudential BSN Takaful | 12 | 12 |
| | • MAA Takaful | 5 | 5 |

| | | | |
|---|---|----|----|
| Reason for Takaful products/services | • CIMB Aviva Takaful | 4 | 4 |
| | • Hong Leong Takaful | 1 | 1 |
| | • HSBC Amanah Takaful | 1 | 1 |
| | • Tax benefit | 3 | 3 |
| | • Investment based on Shariah compliance | 5 | 5 |
| | • Investment and saving based on Shariah compliance | 56 | 56 |
| | • Security based on Shariah compliance | 30 | 30 |
| | • Saving based on Shariah compliance | 6 | 6 |

Using AMOS's (version 18) maximum likelihood estimation, the study tested the adequacy of the hypothesized models using structural equation modeling (SEM) approach.

Cronbach's Alpha is used to measure the internal consistency of the items used in the study. Table 3 reported that the detail of measurement of the variables of the hypothesized model. the results showed that Cronbach's α of each factor or dimension ranged from 0.903 to 0.958, which meets the requirement of 0.7 or greater. This means that the reliability of each measurement factor is high and reliable for further analysis (Nunnally, 1978).

Table 3. Measurement of the Variables of the Hypothesized Model

| Construct | Measurement Items | | Cronbach's Alpha |
|---|--------------------------|--|-------------------------|
| Customer Relationship Management (CRM) * Item 2, 9,10,11,12 (deleted) | CRM1 | 1. My Takaful company has provided personalised service. | 0.926 |
| | CRM2 | 2. My Takaful company has a privacy protection policy. | |
| | CRM3 | 3. My Takaful company provides a convenient payment system. | |
| | CRM4 | 4. My Takaful company provides a convenient and easy to use helpline facility. | |
| | CRM5 | 5. My Takaful company cares for my need eagerly. | |
| | CRM6 | 6. My Takaful company replies to my opinions/recommendations. | |
| | CRM7 | 7. My Takaful company provides a website contains helpful updated information on Takaful products/services. | |
| | CRM8 | 8. My Takaful Company has a convenient interactive communication channel. | |
| Customer Satisfaction (SAT) * Item 2, 7 (deleted) | SAT1 | 1. The service provided by My Takaful Company satisfies me. | 0.958 |
| | SAT3 | 2. The attitude of my Takaful company employees satisfies me. | |
| | SAT4 | 3. I am satisfied with the skilled employees of my Takaful company. | |
| | SAT5 | 4. I am satisfied with the well trained employees of my Takaful company. | |
| | SAT6 | 5. My Takaful company met my expectations. | |
| | | | |
| Customer Loyalty (LOY) * Item 6 (deleted) | LOY1 | 1. I am likely to maintain my patronage of my Takaful company for a very long time. | 0.903 |
| | LOY2 | 2. I will still use the services of my Takaful company even if the other Takaful company offers me a promotional or favored price. | |
| | LOY3 | 3. Even if the price increases, my Takaful company is my first choice when I want to have Takaful (insurance) coverage. | |
| | LOY4 | 4. When I need other Takaful products/ services, my Takaful company is my | |

best choice.

- LOY5 5. Once I have made a choice on which Takaful product to purchase, I am likely to continue to buy it from my Takaful company without considering products from other Takaful company.

The results of the full fledge SEM (see Fig.1), which used AMOS data-fitting program, supported the hypothesized relationships. Specifically, the maximum likelihood estimation of the model yielded the several noteworthy results, which collectively supports the adequacy of the model. The chi-square test of overall model fit resulted with a statistically significant discrepancy between the model and the data ($X^2 = 185.771$; $p = .000$; $CMIN/df = 1.588$), however, the other overall fit statistics (RMSEA= .077; TLI= .954; NFI= .901; CFI = .960) satisfied their respective thresholds deemed important in a good fitting model.

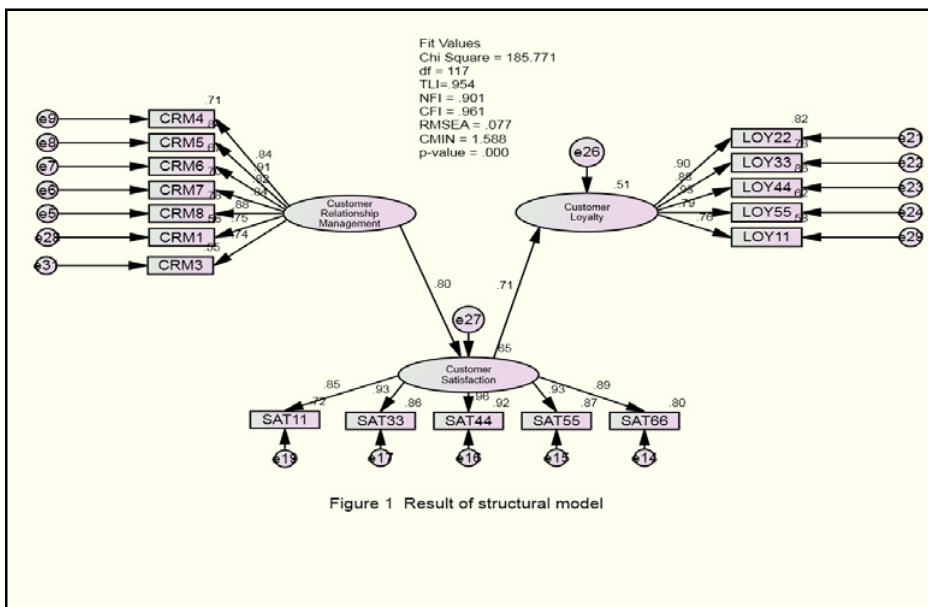


Fig.1. Result of structural model

5. Conclusion

In conclusion, the study reports on exploratory investigation of the relationship between customer knowledge and customer loyalty, and the mediating effect of satisfaction in the Malaysian Takaful industry. This study endeavors to make both theoretical and practical contribution to the literature, and it also provides several implications for future research. Findings from this study will assist policymakers, marketing practitioners, planners and government to change, as needed, in strategies, rules and procedures, and to improve the provision of customer relationship management in this country

Nevertheless, this study has several limitations and requires further examination and additional research. First, this study has focused on customers with experience in local ownership Takaful companies. Further research is needed to compare policyholders from local and foreign ownership Takaful organizations for more rigorous result. Second, since this study only considered local ownership Takaful companies, it is unclear whether the

analytical results can be generalized to both local and foreign ownership Takaful operators in Malaysia. Finally, since the sample of this study was collected in Malaysia, generalization to other countries might be limited due to cultural differences in managing customer relationship management issues related to satisfaction and loyalty.

References

- Abu Bakar Abdul Majeed, & Shaikh Mohd Saifuddin Shaikh Mohd Salleh. (1998). *Islam and development in Asia*. Kuala Lumpur: Institut Kefahaman Islam Malaysia (IKIM).
- Andreassen, T.W., & Lindestand, B. (1998). Customer loyalty and complex services: the impact of customer image on quality, customer satisfaction and loyalty for customers with varying degrees of service expertise. *International Journal of Service Industry Management*, 9(1), 7-23.
- Arifin, J., Yazid, A.S., & Sulong, Z. (2013). A Conceptual Model of Literature Review for Family Takaful (Islamic Life Insurance) Demand in Malaysia.. *International Business Research*, 6(3), 210-216.
- Billah, M. (1996). Comment on Shaikh Al-Azhar's Fatwa against life insurance. *New Horizon*, 58, 3–6.
- Blosch, M. (2000). Customer Knowledge. *Journal of Knowledge and Process Management*, 7(4), 265 - 268.
- Jamil Bojie, & Aryaty Alwie. (2010). The Influence of Relationship Quality on Loyalty in Service Sector. *International Journal of Economics and Management*, 4(1), 81-100.
- Davenport, T. H., De Long, D.W., & Beers, M. C. (1998). Successful knowledge management projects. *Sloan Management Review*, 39(2), 43–59.
- Dekimpe, M. G., Steenkamp, Jan-Benedict E.M. , Mellens, M., & Abeel, P. V. (1997). Decline and Variability in Brand Loyalty. *International Journal of Research in Marketing*, 14(5), 405-420.
- Dick, A.S., & Basu, K. (1994). A Customer Loyalty: Toward An Integrated Conceptual Framework. *Journal of Academy of Marketing Science*, 22(2), 99-113.
- Ehigie, B. O. (2006). Correlates of customer loyalty to their bank: a case study in Nigeria. *International Journal of Bank Marketing*, 24(7), 494-508.
- Fisher, O. C. 1999. Awakening of a Sleeping Giant – Rediscovery of Takaful Worldwide. *Directory of Islamic Insurance (Takaful) 2000*, Institute of Islamic Banking & Insurance.
- Garcia-Murillo, M., & Annabi, H. (2002). Customer Knowledge Management. *Journal of the Operational Research Society*, (53), 875 – 884.
- Gebert, H., Geib, M., Kolbe, L. M., & Brenner, W. (2003). Knowledge Enabled Customer Relationship Management, *Journal of Knowledge Management*, 7(5), 107-123.
- Gibbert, M., Leibold, M., & Probst, G. (2002). Five Styles of Customer Knowledge Management, and How Smart Companies Use Them to Create Value. *European Management Journal*, 20(5), 459-469.
- Haque, A., & Khatibi, Ali. (2007). The Impact Of Internet Marketing On Customer Satisfaction. A Study Malaysian Perspective. *Journal of Mobile Communication*, 1(1), 29-35.
- Homburg, C., & Giering. (2001). A. Personal Characteristics As Moderators Of The Relationship Between Customer Satisfaction And Loyalty- An Empirical Analysis. *Psychology and Marketing*, 18(1), 43-66.
- Kerin, R.A., Hartley, S.W., & Rudelius, W. (2009). *Marketing* (9th ed.). Boston: McGraw-Hill Irwin.
- Kim, W.G., & Cha, Y. (2002). Antecedents and consequences of relationship quality in hotel industry. *Hospitality Management*, 21(4), 321–338.
- Kim, J., Suh, E., & Hwang, H. (2003). A model for evaluating the effectiveness of CRM using the balanced scorecard. *Journal of Interactive Marketing*, 17(2), 5–19.
- Koid, Swee Lian. Keynote Address. 2007. Presented at the Malaysian Insurance and Takaful Brokers Association (MITBA) 1st CEO Conference at Equatorial Hotel, Bangi. (November,2007).
- Kotler, P., & Keller, K.L. (2006). *Marketing Management*. (12th ed.). Upper Saddle River, NJ: Prentice Hall.
- Lam, R., and Burton, S. (2006). SME banking loyalty (and disloyalty): a qualitative study in Hong Kong. *International Journal of Bank Marketing*, 24(1), 37-52.

- Maysami, R.C., & Williams, J.J. (2011). Evidence on the relationship between Takaful insurance and fundamental perception of Islamic principles. *Applied Financial Economics Letter* 2(4): 229-232, accessed Mac 10, 2011, <http://dx.doi.org/10.1080/17446540500461778>.
- McDonald, M. (1996). *Service Quality and Customer Lifetime Value in Professional Sport Franchises*. University of Massachusetts. (Unpublished dissertation).
- Morgan, R.M., & Hunt, S.D. (1994). The Commitment Trust Theory of Relationship Marketing. *Journal of Marketing*, 58 (3), 20-38.
- Mohd Razif Abd Kadir. (2011). Promoting the Takaful industry in Malaysia. Speech presented at the Launch of ING Public Takaful Ehsan, Kuala Lumpur.
- Nonaka, I. (1994). A Dynamic Theory of Organizational Knowledge Creation. *Organization Science*, 5(10), 14-37.
- Nunnally, J.C., (1978). *Psychometric Theory* (2nd ed.). New York: McGraw-Hill.
- Oliver, R. L. (1999). Whence Customer Loyalty. *Journal of Marketing*, 63, 33-44.
- Patel, S. (2008). The Missing Link in Takaful. *Middle East Insurance Review*, 56-57.
- Peppers, D., & Rogers, M. (2004). *Managing customer relationships: A strategic framework*. Hoboken, New Jersey: John Wiley and Sons, Inc.
- Reichheld, F.F. (1996). Learning from Customer Defections. *Harvard Business Review* (March/April 1996), 56-69.
- Reichheld, F., & Sasser, W. (1990). Zero defects: quality comes to services. *Harvard Business Review* (Sept/Oct), 105-111.
- Rosidah Musa. (2005). A Proposed Conceptual Framework of Satisfaction, Attitudinal Loyalty, Behavioural Loyalty Chain: Exploring The Moderating Effect Of Trust. Paper published in *Australian and New Zealand Marketing Academy Conference Proceedings*, 44 – 51.
- Salomann, H., Dous, M., Kolbe, L., & Brenner, W. (2005). Knowledge Management Capabilities in CRM: Making Knowledge For, From and About Customers Work. *Proceedings of the Eleventh Americas Conference on Information Systems*, 167-178.
- Swift, R.S. (2001) *Accelerating Customer Relationship: Using CRM and Relationship Technology*. Prentice Hall, New Jersey.
- Wills, B. (2009). The business case for environmental sustainability (Green): Achieving rapid returns from the practical integration of lean & green. Business Case for Environmental Sustainability, accessed December, 2012, from <http://www.leanandgreensummit.com/LGBC.pdf>.
- Wu, Shwu-Ing, & Li, Pei-Chi. (2011). The relationships between CRM, RQ and CLV based on different hotel preferences. *International Journal of Hospitality Management*, 30, 262-271.
- Yon Bahiah Wan Aris, Siti Zaleha Sahak & Norshahida Shaadan. (2009). A Relook into Awareness, Perceptions, Barriers and Future Insurance Needs: A Case Study of Takaful and the Malays. *International Journal of Arts and Sciences*, 1(19), 10 – 21.