Effect of Service Quality Features on Customer Retention:
The Case of Ethiopian Insurance Corporation

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DECLARATION

I hereby declare that this work entitled **"Effect of Service Quality Features on Customer Retention: The Case of Ethiopian Insurance Corporation"** is my own work and that, to the best of my knowledge and belief, it contains no material previously published or written by another person nor material which has been accepted for the award of any other degree or diploma of the university or other institute of higher learning, except where due acknowledgment has been made in the text.

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This research project has been submitted for examination with my approval as a university advisor.

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Abstract

This study attempts to emphasize the rising importance of customer retention, and how it is affected by Service Quality. In the Service Quality model, the five identified criteria called **Service Dimensions** influencing customer retention through customers' perceptions of service are, **(1) Assurance, (2) Tangibles, (3) Responsiveness, (4) Empathy and (5) Reliability**. Customers typically use these criteria to judge the quality of service they receive. Demonstrating the relationship between these five service dimensions and customer retention at the Ethiopian Insurance Corporation, is the focal purpose of this study.

Accordingly, sample for the study consisted of 254 customers from the Ethiopian Insurance Corporation's Southern Addis District. Data were collected with the help of questionnaires and analyzed using the Statistical Package for the Social Science (SPSS) version 20; service dimensions being the study's independent variables, and Customer Retention, the dependent variable. The results of the study indicated that all Service Dimensions (Tangibles, Assurance, Responsiveness, Empathy and Reliability) positively and statistically affected customer retention.

The various identified components of each of the Service Dimensions that directly affect Customer Retention, do not seem to be given the due attention they deserve by the EIC's management at all levels of the Corporation. This study therefore, recommends that the Corporation's management give this issue its exclusive attention, so as to ensure much improved profit levels through improved performances.

Key words: Service Quality, Customer Service, Customer Retention, and Customer Satisfaction.

Contents

List of Tables

List of Figures

List of Acronyms

EIC	Ethiopian Insurance corporation
FDRE	Federal Democratic Republic of Ethiopia
NBE	National Bank of Ethiopia
PEFA	Public Enterprises Financial Agency
PMAC	Provisional Military Administrative Council

CHAPTER ONE
INTRODUCTION

1.1 Background of the Study

Having high quality products is not enough to ensure the success of a financial services organization, the company must have an exceptional service quality to back up its products, or the company will flounder. Kotler, P., & Keller, K. (2011).

One of the major reason providing an exceptional level of service quality has become a top priority for many financial services companies is the fact that financial institutions generally offer products that are useful but intangible, i.e., they cannot be grasped with the senses- customers of financial institutions often cannot separate the company and the product from the people providing the service. Thus, the success of a financial services company depends to a large extent on the behavior of the people who work in that company. LOMA, (2015).

In addition, the financial services industry has become intensely competitive as financial institutions increasingly expand their product offerings and enter each other's traditional core business domains. As more companies compete against each other to attract and retain customers, the quality of service becomes increasingly important. A financial services company that provides an exceptional level of service quality adds value to its products, thereby gaining an advantage over its competitors. LOMA, (2015).

Another reason service quality is important in the financial services industry is the rising expectations of customers, who often demand instantaneous responses and actions. When customers receive an exceptional quality of service from one company, whether that company is in the financial services industry or some other industry, they begin to except the same level and quality of service from other organizations. Furthermore, as customers grow accustomed to receiving excellent service quality, they become dissatisfied with companies that fail to provide it. LOMA, (2015).

According to Armstrong and Kotler (2008), it is important for firms to implement the right marketing strategies in order to succeed. Traditionally, firms have focused their marketing strategies around attracting new customers and increasing their market share. However, due to globalization, most industries and markets are becoming more and more competitive forcing significant changes in the way firms do business. In order to retain customers in industries characterized by high competition like insurance, firms need to meet each individual customer's needs and expectations. Gumesson (2002) argues that it is the value of the customers' experiences with the product or service that is important, therefore, it is important to consider the needs of customers' when developing products and services.

On the other hand, the very survival of a business also depends on how best it can capture and retain its market in order to improve its revenues. Han, Kwortnik and Wang (2008) posited that the simplest way to develop a business is to maintain and keep the existing customers. Business development and expansion is determined by how best an organization can keep and retain current customers (Gee, Coates and Nicholson, 2008). Ehigie (2006) asserted that customer retention will become a distant dream if the following are not taken into consideration: relieving customers from anxiety and fears (Naeem and Saif, 2009); demonstrate by actions that the organization cares for them (Lucas, 2005); paying urgent attention to customers' needs and requirements (Oyeniyi and Abiodun, 2008); proving that the organization values, recognizes and respects them (Petasis and Opoku-Mensah, 2009); maintaining consistent contact and paying quick attention to their complaints (Saunders and Petzer, 2010); acknowledging them and keeping them informed (Patterson, 2004); commitment to customer fulfillment by every member of staff (Lee and Hwan, 2005); dependable on-time delivery; error-free-delivery process and employing exceptional persons to deliver better service quality. (Kassim and Abdullah, 2010).

An American Company, Nationwide Insurance found that a 1% increase in customer retention increased annual premiums by $1 million (Insurance Technology, Data monitor, 2008). 26% of insurance customers will switch insurance providers, based solely on a bad experience with the contact center. Insurance customers that are dissatisfied are 40% more likely to tell others about their bad experience (American Customer Satisfaction Index). Satisfied customers are 50% more likely to listen to a sales offer, while dissatisfied customers (if they choose to listen) are twice as likely as satisfied customers, to decline an offer after listening to it (Maritz, 2008).

The insurance industry is a very unique industry with challenging services that need to be managed effectively to ensure that the customers that have been hard won do not leave the business to go elsewhere. The provision of superior customer services and the resultant retention of customers are therefore critical issues for insurance companies, as the loss of key customers can be devastating as they can walk away with huge premiums and immensely impact the production of a particular period. With little differentiation between product offerings, it is extremely challenging for insurance companies to retain customers. Retention of the right policyholder is imperative for profitability, as the cost of acquiring new customers can be up to 10 times the cost of retaining an existing customer. In the face of challenging economic times, pressing regulatory changes, growing customer dissatisfaction in this unique industry, and increased competition for market share, insurance companies are struggling to maintain their balance in turbulent environments. Oketch, S. (2014).

Currently, the cut-throat and apparently, unprofessional competition among rival insurance companies in the Ethiopian insurance industry is largely based on price, service and claims management. Premium discounts, discounts for not reporting a claim (no claim bonus discounts), prompt service and claims settlement are some of the main customer retention strategies the insurance companies use to retain their customer base. However, as the customers become more informed and competition intensifies, it becomes apparent that insurance companies have to go the extra mile to do more than just sticking to these traditional methods of retaining customers.

1.1.1 Background of the organization

In December 1975, the Provisional Military Administrative Council (PMAC or Dergue) issued proclamation No. 68/1975 to establish the Ethiopian Insurance Corporation, with the objectives of engaging in all classes of insurance business in Ethiopia, ensuring that insurance services reach the broad masses of the people and promote the efficient utilization of both material and insurance resources. The assets, liabilities and the operating capital (in the amount of Birr 11 million, USD 1.29 million) of the 13 nationalized private insurance companies' insurers were transferred to the new entity. EIC was entrusted with power and responsibility to manage, administer and underwrite all insurance businesses to be transacted in Ethiopia and to supplement its functions with re-insurance contracts EIC deemed fit. No other competitor existed during the Dergue command economy. Tibebe, (2015).

EIC was re-established as public enterprise under proclamation number 201/94 with Birr 61 million (USD 7.13 million) paid up capital in 1994, with the changed objectives of engaging in the business of rendering insurance services and any other related activities conducive to the attainment of its purposes. EIC got restructured and re-established as a public enterprise with a view to re-align its operations to the demands of the new market oriented economic policies of the Federal Democratic Republic of Ethiopia (FDRE); as of January 30, 2004, EIC became accountable to the Public Enterprises Financial Agency (PEFA). PEFA was established as an autonomous entity under the Council of Ministers Regulation to supervise public financial enterprises, namely state owned banks and insurance companies. Tibebe, (2015).

Effective 1994, EIC ceased to be the only monopoly in the insurance industry in Ethiopia because other domestic private insurers entered the market. The Insurance Proclamation 86/1994 opened the opportunity for establishing domestic private insurers. However, international insurers are still not allowed to conduct business in Ethiopia and the prohibition remains to this day. Currently, there are 17 insurers including the state owned EIC licensed and authorized to do business in Ethiopia by the National Bank of Ethiopia (NBE). Tibebe, (2015).

The EIC is recognized as the most reliable and financially viable insurance institution in Ethiopia's financial services industry. It has diversified contacts with international insurers, associations of insurance, reinsurance pools, and reinsurance companies; in addition, it accepts inward insurance business from various international insurance companies and deals with outward reinsurance business with the most renowned international re-insurers. Furthermore, Ethiopian Insurance Corporation is a member of national and international insurance and reinsurance organizations which include: the Ethiopian Insurance Association; Federation of Afro-Asian Insurers and Re-insurers; African Insurance Organization, and Organization of Eastern and Southern African Insurers. On top of this, EIC is a shareholder of African Reinsurance Corporation headquartered in Lagos, Nigeria and African Export-Import Bank, headquartered in Cairo, Egypt. Tibebe, (2015).

1.2 Statement of the Problem

The quality of the customer support service has pronounced effects on the rates of customer retention and/or defection. It is the key to competitive advantage, as it proactively gauges customer perceptions and instigates aggressively acting on the findings, through the use of timely and effective techniques. Ako-Nai, E. A. (2011).

The argument for customer retention, on the other hand, is relatively straightforward. It is more economical to keep customers than to acquire new ones (Cohen, et al. 2007). Levesque and McDougall (1996) “confirmed and reinforced the idea that unsatisfactory service quality leads to a drop in customer satisfaction and willingness to recommend the service to a friend.” This would in turn lead to an increase in the number of customer shifts to competitors.

Insurance companies offer unique financial services that boost economic growth in a country. The services range from the underwriting of risks common in economic entities to the mobilization of large amount of funds through premiums for long term investments. Increased risk absorption capacity of insurers ensures financial stability in the financial markets and provides a sense of security to economic entities. The business world without insurance is unsustainable, as risky businesses may not have sufficient capacity to retain all kinds of risks in this ever changing and uncertain global economy; indeed, a well-developed insurance industry provides long- term funds for infrastructure development of any economy.

In spite of the important role of the insurance industry, there seems to be insufficient information in the Ethiopian insurance industry to help professionals formulate effective policies that address the needs of customers. Besides, the unavailability of updated, accurate statistics remains a big challenge to the sector to this day; and this seems to have affected the level of insurance penetration, actually making it one of the lowest in Africa. Furthermore, a very limited number of researches have been conducted on the issues of the how service quality affects the rates of customer retention.

1.3 Research Questions

This study attempts to address the following basic research questions among others:

1. How do Service Quality Features influence Customer Retention at the EIC?
2. What are the possible measures that should be taken by EIC to meet the expectations of customers to improve the level of customer retention?
3. What are the major factors that affect customer retention at the EIC?

1.4 Objectives of the study

1.4.1 General Objective

The main objective of this study to analyze the effect of Service Quality Features on Customer Retention in the case of Ethiopian Insurance Corporation.

1.4.2 Specific Objectives

i. To analyze the factor which affects customer retention in EIC
ii. To analyze the most dominant factor affecting the customer retention at the EIC
iii. To identify the influence of Service Quality Features on Customer Retention at the EIC.

1.5 Significance of the Study

The results of this study would hopefully enable EIC to better understand why its customers defect, or the effects of service quality on customer retention. Furthermore, high level decision makers at the EIC, may benefit from the use of this document in the development of their Customer Relationship Management by making informed decisions, and achieving improvements on overall performances or profitability measures, and finally sustaining the desired competitive edge.

In addition, the rise in unprofessional customer acquisition and retention practices in the Ethiopian insurance industry is becoming an increasing regulatory concern; so in its regulation of the conduct of business in this industry, it is important that the concerned government body or policy maker prepare the ground for the fair play of all industry players. It is therefore at this juncture, that this research may be a valuable reference for these bodies, i.e., for their regulatory, policy formulations and revisions tasks.

This study which focuses exclusively on the Ethiopian Insurance Corporation as a case study is expected to contribute to the existing knowledge on service quality and customer retention. The researcher hopes this study will serve as a foundation for future research work to be conducted in this area.

Finally, it can also be concluded that, the insurance industry in general, will have an undisputed interest in such types of researches.

1.6 Scope of the Study

The EIC, at the time this research was conducted had a clientele of over 15,000 customers; and it would have obviously been impractical to conduct a census survey in such a situation. The researcher of this study therefore, selected the customers of the EIC's Southern Addis District (where she herself woks as a Customer Service Representative of the district) for the ease of the primary data collection. The study as result, focused exclusively on the customers of EIC's Southern Addis District; and it attempted to investigate the effect of service quality features on customer retention, using Likert scale questionnaires.

1.7 Organization of the Study

The rest of this study is organized as follows; Chapter two of the study consists of the literature review with information from articles which are relevant to the research. Chapter three entails the methodology used in the research. Chapter four gives insights to the data analysis, the findings and discussions of the study. Then lastly Chapter five of the study presents a summary of findings, discussions, conclusions and policy recommendations

CHAPTER TWO
LITERATURE REVIEW

2.1 Introduction

This chapter includes theoretical and empirical literature on service quality and customer retention in the financial services industry. The aim of this chapter is to clearly signify how Customer Retention rates are profoundly affected by the quality of service in the financial services industry.

The chapter starts out with a broad view on the rationale for the provision of exceptional or superior service quality and the importance of customer retention; leading to the benefits and challenges of bettering service quality and customer retention; narrowing down more specifically to informed strategies for the improvement of service quality and customer retention; then finally the effects of enhanced Service Quality Features on customer retention, within the financial services industry are identified.

2.2 Theoretical Review

2.2.1 Customer

Customers can best be described as those persons who use the output of work, the end users of products or services. They may be internal such as the employees and directors or external like members of the public, other businesses, or government (Dei Tumi, 2005). A customer is one who purchases goods or services from the service provider. Customers are indeed an asset to firms (Hogan et al., 2002). A good customer base ensures a continuous source of future revenue due to repeat purchases done by them and cross-buying of other products offered by the service provider (Dawes, 2009). As competition rises there is the need to generate creative and new ways of meeting the ever-increasing demands of the modern-day customers who are very sophisticated, knowledgeable, demand excellent products and/or services and have alternatives.

2.2.2 Customer Service

Customer service is an organization's ability to supply their customers' wants and needs (Simons, 2017). According to Hanaysha (2016), customer service is the provision of service to customers before, during and after a purchase. It also means serving the customer, and involves all contact with the customer, be it face-to- face or indirect contact. According to Turban et al. (2002), it is a sequence of activities designed to enhance the level of customer satisfaction - that is, the feeling that a product or service has met the customer expectation. A study by Osuagwu (2009) described customer service to include creating, preserving and improving the interactions among partners in a business entity to recognize the objective of the significant parties. He further explained customer service as a state where all buyers are viewed as separate beings, and every action of the party in question is directed to enhance the communication between key partners in order to understand the objectives of an organization. Accordingly, Haroon (2010) observed that the quality of services delivered play an important role in increasing the customer loyalty and customers highly consider the value of these services. This means that, delivering excellent and superior customer service is about getting the customer back. Customer service is also about making customers have distinctive customer experience that makes them produce a positive feedback about the organization and also repeat the business they do with the organization. Customer service thus encompasses the ways through which satisfaction will be jointly beneficial with regards to the unseen aspects of products considered by people who have the urge to satisfy their needs. It is generally gripped on anticipated notion which consists of a precise recognition and accepting the wishes of potential and actual buyers, and also modification of the activities of an entity to deliver excellent customer service admirably and professionally (Sokefun, 2011). Customer service is an important tool to generate income and revenue in an organization.

Customer Service further refers to the broad range of activities that a company and its employees perform to keep customers satisfied so that they will continue doing business with the company and speak positively about it to other potential customers. At its most basic level, customer service involves answering customers' questions, providing requested information, and processing transactions. These activities are an integral part of any business because they connect a company to its customers. When customers purchase a product or service, they expect that someone from the company will be available to answer questions or solve problems that might arise during or after purchase. All financial services companies provide this minimum level of service to avoid losing customers and eventually failing. LOMA, (2015).

Simply performing basic customer service activities, however, does not ensure that a company is meeting its customers' needs and expectations; to effectively serve customers, a company must do these activities well. Companies must also respond to customers' evolving needs and expectations. In addition to answering questions and responding to requests quickly, accurately, and in a professional manner, a company may need to respond to customers' e-mails or posts online. A company that is slow to respond to customers' requests or that responds in a manner that seems unprofessional or careless is not serving customers well. Rude or uniformed company representatives, sloppy record keeping, failure to follow through on promises, and mishandled transactions are all indications of poor service quality. LOMA, (2015).

2.2.3 Characteristics of, and the importance of providing Exceptional Customer Service in Insurance

Companies that provide exceptional customer service are those that effectively meet customer needs and consistently exceed customer expectations. These companies deliver on their promises to customers, and they help customers feel appreciated by delivering value-added service. Exceptional customer service comes from two sources, each of which relies heavily on the other: (1) the organization and (2) individual service providers. LOMA, (2015).

Organizational components greatly affect service quality and include, a company's business philosophy, its strategic planning process, and its business systems. LOMA, (2015).

Individual service providers, or people are the most important components of service quality because they work directly with, and provide behind-the-scenes support to customers. Each interaction that a service provider has with a customer contributes to the customer's overall opinion of the company. Service providers who work directly with customers are more effective if they have a people-oriented personality and outlook. In addition, to deliver exceptional customer service, employees must be highly motivated and possess knowledge of products, services, procedures, technology and effective interpersonal skills. LOMA, (2015).

Financial services companies provide exceptional customer service to retain their customers, a task that has grown increasingly complex over the years. Customers who are inexperienced with certain types of financial products and services require special attention; other customers, who are well informed and financially sophisticated, demand a different kind of care. Most customers have a variety of financial options to choose from, so if they are not happy with the service they receive from one company, they can take their business elsewhere. Frequently a company must delight or dazzle its most valued customers to earn their loyalty, retain their business, financially viable; and this fact is clearly reflected in its level of Service Quality. LOMA, (2015).

2.2.4 Service Quality

The term Service Quality is an association of two different words; "service" and quality. Service means "any activity or benefit that one party can offer to another that is essentially intangible and does not result in the ownership of anything". Quality has come to be recognized as a strategic tool for attaining operational efficiency and better performance of business. Ramya et. al (2019) and Pakurár et. al (2019).

Service quality can therefore, briefly be defined as how companies meet or exceed customer expectations. Researchers however, agree on the definition of service quality, saying that service delivery can coordinate with, match, or override the desires of customers. Ramya et. al (2019) and Pakurár et. al (2019). Organizations have realized that service quality brings a sustainable and competitive advantage; as service quality and customer satisfaction are critical success factors for companies that are thinking about competitiveness, development and growth in the market. Angelova, B.and Zekiri, J. (2011).

In the increasing competitive market, especially the financial services market, the focus on service quality is essential for the firm's survival and success. The management of service quality helps management to maintain consistency in service delivery and to meet changing customer expectations more efficiently and effectively. Pakurár et. al (2019).

According to Rauch et al. (2015), in order to conduct a comprehensive evaluation of a company, the management has to compare its performance with its customers' expectations and with the performance of other companies in the same industry. In the service sector "quality" is an important element for the success of businesses, because of its positive link with profits, increased market share, customer satisfaction, and more importantly increased customer retention rates.

Service quality improves customer satisfaction and cost management increases profit. Yarimoglu, E.K. (2014). Parasuraman et al. (1985) recommended SERVQUAL, a service quality model to measure the scale of difference between what consumers expect and their perceptions. Parasuraman et al. (1988) proposed 10 dimensions for service quality: tangibles, reliability, responsiveness, competence, courtesy, credibility, security, access, communication and understanding the customer. Service quality is considered a multidimensional construct; most researchers have used the SERVQUAL model in order to measure service quality and customer satisfaction in service giving organizations. Service quality in the SERVQUAL model consists of five dimensions: reliability, assurance, responsiveness, tangibles and empathy.

2.2.5 Dimensions or features of Service Quality

Service Quality Features are those attributes that constitute customer service. They are those features that help build good relationship with customers. They are qualities and habit that equip an individual to address customer needs and foster a positive experience. It includes clear communication, professionalism, empathy, friendliness, responsiveness, product knowledge and rewarding customers (Allan, 2016). The five dimensions or features of service quality (reliability, assurance, responsiveness, tangibles and empathy) that have an impact on customer satisfaction, and eventually on the customer retention rates, are discussed below. These five service dimensions are considered as important Service Quality Features for the purposes of this research.

2.2.5.1 Reliability

Reliability means performing the promised service consistently and accurately. Customers do not want to conduct business with an unreliable company, especially where their financial well-being is involved. LOMA, (2015). Parasuraman et al. (1985, 1988, 1994) found that organizations perform a service correctly the first time, strive to fulfill promises and pay attention to the results. Reliability has been rated as the first dimension of the SERVQUAL service quality model.

Studies of Lam, T.K. (2002) ranked reliability as first in the dimensions of the service quality model.

2.2.5.2 Assurance

Assurance refers to the competence and credibility of service providers, their ability to convey trust and confidence, and the courtesy and respect they show to customers. Service providers must have the necessary knowledge, skills, and systems to perform required services, and they must be empowered to handle a variety of customer situations. Service providers must also treat customers in a polite, considerate and friendly manner. The level of assurance displayed by service providers eventually, strongly affects the amount of trust and confidence that customers develop. LOMA, (2015). The opinions of researchers on the ranking of assurance among service quality dimensions is varied. Assurance is ranked first according to Gronroos (1988) while Parasuraman et al. (1994) ranked it in fourth place.

2.2.5.3 Responsiveness

Responsiveness implies a willingness to help customers and an ability to provide them with prompt service. Customers want fast, appropriate service. Responsiveness requires a positive attitude from the service provider and a level of support from the company (in staffing, training, procedures, and technology) that allows service providers to be responsive. LOMA, (2015). Parasuraman et al. (1994) highlighted that the responsiveness also involves telling customers exactly how, and when things will be done, giving them undivided attention, promoting services, and responding in accordance with their requests; Parasuraman et al. (1994) ranked responsiveness as the third dimension in the SERVQUAL model.

According to Parasuraman et al. (1988), responsiveness is willingness to help customers and provide prompt service. Responsiveness is likely to have an important and positive effect on customer retention (Diaz & Ruiz, 2002; Glaveli et al., 2006; Joseph et al., 2005; Jun & Cai, 2001). It refers to the speed and courtesy with which business operations respond to customers request and customer contacts. It increases the psychological comfort of customers.

2.2.5.4 Tangibles

Tangible factors are the physical aspects of a business organization and its employees. Physical appearance is frequently a critical factor when customers judge the service they receive. Customers notice whether offices are clean and well organized; employees are well groomed and well spoken; letters are neat and well written; and forms are easy to read and fill out. Although tangible factors may seem superficial, they help influence customer perceptions of a company. LOMA, (2015).

2.2.5.5 Empathy

Empathy is the process of understanding another person's emotional state and imaging how it would feel to be in a similar situation. Empathy also entails a strong commitment to customer communication; empathetic companies listen to their customers and keep customers informed about products and services in language they can understand. LOMA, (2015). Parasuraman et al. (1994) further stated that quantitative studies that have identified service quality model dimensions have used security, credibility, and access to measure empathy. Parasuraman et al. (1988) further defined empathy as the caring, individualized attention the firm provides for its customers. Empathy is proved to be influential in customer loyalty and retention (Butcher, 2001; Ehigie, 2006; Ndubisi, 2006).

2.2.6 Customer Retention

By definition customer retention is the activity a company undertakes to prevent customers from defecting to alternative companies. Successful customer retention starts with the first contact and continues throughout the entire lifetime of the relationship. Jimoh and Idowu, (2016).

Cook (2002) states that, a company's ability to attract and retain new customers is a function not only of its product or product offering but also the way it services its existing customers and the reputation it creates within and across market places. Statuss et al. (2001) defined retention as the customer's liking, identification, commitment, trust, willingness, to recommend, and repurchase intention. Customer retention implies a long-term commitment on the part of the customer and the firm to maintain the relationship.

Len Markidan, (2015) argued that bringing in new customers is hard, but losing them is easy (and costly). That’s why customer retention is critical and important. Too many business owners run their companies like a bucket with a hole in it. They pour the water (customers) in at the top, but don’t pay attention to what’s leaking out of the bottom. Patching that hole is one of the best, and fastest, ways to boost a company’s profits.

In fact, according to a study published by Harvard Business School, increasing customer retention by just 5 percent can lead to a 25 to 95 percent increase in profits (Charlse, E G II, 201). Reasons for such an increase include:

- Retaining customers is less expensive than acquiring new ones.
- Happy customers are more likely to tell their friends and family about the business.
- Repeat customers spend more money and require less help.

Customer retention goes beyond satisfying the present expectations of the customers instead it is helpful in anticipating their expectations so that they become loyal supporters and promoters for the company. To survive in a global and competitive environment, it becomes imperative for organizations to offer and deliver a consistently high standard of service quality. Ogunnaike et. al. (2014).

In recent times, it has been demonstrated that average business organizations loose around 30 percent of customers due to their insensitivity to customer relationships. Paradoxically, most business organizations invest huge amounts of money and time to develop and maintain customer relationship, but as soon as they experience expansion and sales growth, they eventually neglect, or ignore the customer while pursuing more businesses and let the established relationship fade away. Ogunnaike et. al. (2014).

The incessant hunt of operational distinction in keeping customers becomes essential when the customers inform others how well they were treated when doing business with them. Jones, Beatty and Mothersbaugh (2002) adduced that customers’ retention involves keeping in touch and building relationships with the customers through the various means of communications such as mails, phone calls, letters, special gifts/offers, follow-ups, and cards or notes with a personal touch (Bowen and Chen, 2001). Churchill and Brown (2004) also demonstrated the significant role of communication in promoting customers retention. Jamal and Naser (2003) added that these forms of communication must continually occur from time to time. Customers not only appreciate this, as it arouses their sense of belongings because it makes them feel respected, esteemed and important, but it also acknowledges them, keeps them informed, offsets post-purchase doubts, reinforces the reason they're doing business with the company and makes them feel part of the business so that they want to come back again and again.

Studies demonstrate that generating new customers is often costly and expensive than maintaining or retaining existing ones, and that improvements service quality will eventually lead to customers' retention which will optimally bring out increase in profits across a wide range. The profits (income and proceeds) of every organization will significantly increase as new customers are attracted without losing the existing ones. Ogunnaike et. al. (2014).

Zeithml and Bitner (2003) stated that in retaining customers, it is important to deliver quality service that is distinct and consistent with the organizational value and scheme. Walsh, Groth and Wiedmann (2005) added that organizations who strive to retain and satisfy customer requirements, will surely enjoy increases in profit. Uncles, Dowling and Hammond (2003) added that in a situation where an organization has an outsized number of customers with limited increase rate for customers' retention, there will still be a progression in the profit level. Hence, for every organization to survive in the competitive world, it is important to develop an effective customer retention strategy that will meet the needs, aspiration, demands and requirements of the customers.

The concept of customer retention comes from the concept of customer orientation or customer focused marketing, which calls for organizing the company towards the satisfaction of the customer needs. Ideally this requires that the offering should focus on the customer's needs and/or expectations. UK Essays, (November, 2018).

Weinstein & Johnson (1999) recommended that "at least 75% of an organization's marketing budget should be spent on customer retention strategies and strengthening these relationships". Besides this realization, there is a general lack of focus on customers; profitability is still king (Ross 1995). Most firms focus a significant amount of resources to attract and acquire new customers, instead of keeping the existing ones. It is generally thought that "once a customer is acquired, keeping the customer is simple through superior products and services" Payne, (2006). Ross, (1995) continued to claim that a focus on cash flow and short-term profits is not something wrong, but long-term profit and market share both require a base of satisfied customers which are retained by a focus on satisfaction with product quality, service quality, pricing and creating high switching barriers. Customer retention is a concept that requires management to focus on customers by analyzing the indicators that reflect their satisfaction with services.

2.2.7 The Rise of Customer Retention

Badgett et. al., (2004) reported that a 5 per cent increase in customer retention generated an increase in customer net present value of between 25 per cent and 95 per cent across a wide range of business environments.

Research done by Gupta et. al., (2004) found that a 1 per cent increase in customer retention had almost five times more impact on firm value than a 1 per cent change in discount rate or cost of capital. As a result of these researches, the business case for marketers to focus on the management of customer retention became more clearly established. Because of this, there is a growing recognition now that customers, like products, have a life-cycle that companies can attempt to manage and they can be acquired, retained and grown in value over time. Freeland, (2003) points out that customers climb a value staircase or value ladder from suspect, prospect and first-time customer, to majority customer and ultimately to partner or advocate status. In response to these changes there has been a new emphasis on defensive marketing, which focuses on holding on to existing customers and getting more custom from them (higher "share of customer"), in contrast to activities which focus on winning new customers. One of the reasons for the great popularity of customer retention is the recognition that losing a customer means in fact more than a single sale: It means losing the entire stream of purchases that this particular customer would make over a lifetime of patronage Kotler and Keller, (2006).

Generally, today's financial services find themselves more and more in a situation in which they have to build professional customer retention management systems. There are two main reasons for doing so; on the one hand, the costs of gaining new customers in highly competitive markets are increasing considerably. On the other hand, the profitability of an individual customer grows permanently with the duration of the business-relationship Liu & Lai, (2004; pg 398). Customer retention attempts to win a slightly larger share of the customer's spending than would otherwise be the case McAlexander, (2006).

In spite of this, according to Weinstein, (2002, p. 259), most companies spend a majority of their time, energy and resources chasing new business. 80% or more of marketing budgets are often earmarked for getting new business" Weinstein, (2002, p. 260). This is in line with Payne and Frow's (1999) finding that only 23 per cent of marketing budgets in UK organizations is spent on customer retention.

Aspinall et. al. (2001), in contrast, found that 54 per cent of companies reported that customer retention was more important than customer acquisition. Support for retaining customers in the marketing literature (e.g. Ahmad and Buttle, 2002) is extensive. The benefits of retaining customers to the organization are higher margins and faster growth, derived from the notion that the longer a customer stays with an organization, generally the higher the profit.

The significance of retaining customers is not new to marketing, as Drucker, (1963) believed that marketing is as much concerned with retaining as well as acquiring customers. However, as competition has intensified and markets become saturated, an awareness of the benefits of retention has grown, particularly in the financial services.

2.2.8 Customer Retention and the rise of Relationship Banking (RM)

The objectives of Relationship Banking is to identify and establish, maintain and enhance and, when necessary terminate relationships with customers and other stakeholders, at a profit so that the objective of all parties involved are met. This is done by a mutual exchange and fulfillment of promises. UK Essays, (November, 2018).

Kabiraj et. al. (2004) in their study of relationship practices in India noted that the Indian financial sector can only stay competitive by building lifelong partnerships with their customers. Relationship Banking techniques can be employed to develop an ongoing dialog with customers, integrated across all contact points.

Knox et. al. (2003, p. 19) addressed that RM is a strategic approach designed to improve stakeholder value through developing appropriate relationships with key customers and customer segments and involves an enterprise-wide marketing strategy and technology platform. If done correctly, it enables organizations to retain the loyalty of their customers. It is about managing and monitoring customer behavior and has the potential to change a customer's relationship with the banking organization and increase revenue Dyche, (2002, pg.4).

In today's economic condition, relationship banking can help to provide a sense of personal service without an actual person Seybold, (2007). They allow businesses to integrate customer interaction channels and provide consistency in their interactions with customers, generate better customer intelligence, customize their offerings and communications to customers, manage customer interactions and relationships more effectively, and manage the customer portfolio by assessing the lifetime value of customers Ely, (2006).

Relationship Banking/Marketing is not a new concept, its roots lie in the marketing basics of repeat purchase, customer retention and customer loyalty. Traditionally followed by retailers, the concept is slowly spilling over to the financial services industry. Berger, (2005) describes Relationship Banking as an attempt to advance the sales culture in marketing beyond order taking to a more pro-active form of direct selling which includes knowing more about the customer needs and tailoring products and services to suit individual requirements. UK Essays, (November, 2018).

Its goal is to establish a long term, intimate and relatively open relationship between the businesses and their customers. In this way, they are able to understand their customer, give personal advice and develop proximity with the customer. UK Essays, (November, 2018).

Customer retention has been shown to be a primary goal in firms that practice Relationship Banking Coviello et. al., (2002). While the precise meaning and measurement of customer retention can vary between industries and firms Aspinall et. al., (2001), there appears to be a general consensus that focusing on customer retention can yield several economic benefits Buttle, (2004). As customer tenure lengthens, the volumes purchased grow and customer referrals increase. Simultaneously, relationship maintenance costs fall as both customer and supplier learn more about each other.

Because fewer customers churn, customer replacement costs fall. Finally, retained customers may pay higher prices than newly acquired customers, and are less likely to receive discounted offers that are often made to acquire new customers. All of these conditions combine to increase the net present value of retained customers. Lindgreen et. al., (2000, p. 295), computed that it can be up to ten times more expensive to win a customer than to retain a customer and the cost of bringing a new customer to the same level of profitability as the lost one is up to 16 times more.

Although a number of authorities have suggested that Relationship Banking represents a paradigm shift Christopher et. al., (1991; Sheth and Parvatiyar, (1995) from a longer established transactional orientation to customer management, Gronroos, (2000, p. 23) noted that the relational perspective on marketing is in fact “older than the transaction perspective in marketing” and is “probably as old as the history of trade and commerce”. There has been growing interest in relational aspects of customer management.

Relationship Banking permits businesses to leverage information from their databases to achieve customer retention and to cross-sell new products and services to existing customers which is why they are synonymous to existing customer promotion. It is believed that companies that implement Relationship Banking practices make better relationships with their customers, achieve loyal customers and a substantial payback, increased revenue and reduced cost Blery & Michalakopoulos, (2006). Relationship Banking when successfully deployed can have a dramatic effect on bottom-line performance.

While it may not be important to retain all customers, it is important to retain the right customers in the business. Overtime, choices must be made as to which customers to acquire, which ones to develop and which ones to retain. It is true that not all customers are worth retaining, since from a long-term perspective not everyone is equally profitable. UK Essays, (November, 2018).

It is important to know if a currently unprofitable customer would generate a future profit stream, if an investment were made in enhancing the customers’ satisfaction. These problems can be addressed by profiling customers and making investments in those who offer the desirable growth and profit potential. Subhash C. Jain, (2005, pg. 278).

2.2.9 Benefits of Customer Retention

Dawes and Swailes, (1999) explain that successful customer retention circumvents the costs of seeking new and potentially risky customers, and allows organizations to focus more accurately on the needs of their existing customers by building relationships. Researchers have also pointed out that customer retention has a significant impact on profitability and positive customer satisfaction and leads to superior financial performance.

This is because firms with high customer retention rates tend to have lower costs, maintain more profitable long-term relationships, and enjoy substantial word-of-mouth advertising. Reynolds, (2002) suggests that once a company acquires a group of customers, it can retain that group by making them feel special through customer recognition. Reichheld, (2006) in his article 'Learning from Customer Defections' identified that the longer a customer stays with a company, the more they are worth as in the long-term customers buy more, take less of a company's time, are less sensitive to price, and bring in new customers.

The three aims of customer retention programs that stand out, namely, the Lifetime Value Concept, the Customer Advocates, and the Profitability and Cost Efficiency benefits have been discussed below.

2.2.9.1 The Lifetime Value Concept

Customer retention has given rise to the concept of Customer Lifetime Value (CLV or LTV) which represents the net present value of profits, coming from the individual customer from a flow of transactions over time. Novo, (2006) describes Customer Lifetime Value (LTV) as the present value of the stream of future profits expected over the customers' lifetime purchases. Companies can look at their investments in terms of cost per sale, rate of customer retention and also conversion of prospects. LTV is also used as a convenient yardstick of performance, however, it has tended to become a bit too much of a 'holy grail' for corporate, marketing and sales executives, to the extent that entire conferences and seminars are often devoted to helping optimize it Romano & Fjermesta, (2003; pg 233).

It is important to retain customers, but not at the cost of other essential marketing activities; putting customers into key categories helps to clarify analysis and acts as the basis for marketing activities designed to improve Customer Lifetime Value. While the importance of calculating the Customer Lifetime Value in deciding the retention strategies cannot be questioned, some writers are of the view that measuring the lifetime value can sometimes be complicated as it involves a lot of analytical forecasting. UK Essays, (November, 2018).

The Pareto principle refers to a general pattern of sales concentration in which 20% of a firm's customer's account for 80% of the firm's profits Storbacka, (1997). It suggests that a firm's most valuable and loyal customers are the 20%. Understanding why they are the most valuable will help to shape strategies that maximize the value of less profitable customers. CRM or Customer Relationship Management, (a technology-based strategy that integrates the front office and back office functions with customer contact points) systems allow businesses to determine which customers hold the greatest opportunity to be retained (Miller, 1993; Gronroos, 1994; Ahmad & Buttle, 2002; Jobber, 2004; Mandina, 2014).

Knox et.al. (2003; pg 207) argue that 'calculating Customer Lifetime Value is problematic because it involves forecasting what amounts of what products customers will buy in the future years, and what the sales, administration and logistics costs will be. Because profits in future years are progressively less valuable (because of inflation) and less certain, a discount rate has to be applied. The higher the discount rate, the less valuable future profits will be.

Analyzing the customer lifecycle involves identifying customer touch points that have the potential to increase the value of the customer to the firm Rigby, (2004). Researchers claim that tactical activities including up-selling and cross-selling increase CLV (Verhoef, 2003; Linoff & Berry, 2011). However, it could be argued that these activities take a short-term perspective on obtaining revenue and could potentially cannibalize long-term revenue.

Many of the studies on CLV provide formulas and models including defining the cost of acquisition and retention against the revenue generated from a customer (Berger & Nasr, 1998; Jain & Singh, 2002; Hwang et al., 2004). It is important to segment the customer base and identify exactly how to appropriately generate value from each segment Robinson, (2003).

Hwang et. al., (2004) presents a CLV model through case study research and defines three ways to determine CLV through calculating past, current and potential value. The CLV model suggests that the strength of customer relationships varies by the stage of the customer lifecycle.

2.2.9.2 Customer Advocates

Repeat customers with a strong relationship with the business are more likely to recommend to others in comparison to new customers and are considered valuable advocates of the company Mousavi, (2012). As a result, they are more forgiving when they have a less than satisfactory experience and are more likely to provide constructive feedback on areas that the company can improve on Oh, (2009). They are also more engaged with the company and are more likely to respond to promotions positively. Miller, (1993) however, warns that the abuse of a customer's loyalty reduces the impact on their intention to repurchase.

2.2.9.3 Profitability and Cost Efficiency

While customer acquisition remains an important marketing strategy in business, its short-term, transactional-based approach is ineffective in building loyalty. It is widely agreed by researchers that the investment required for customer acquisition is significantly higher than for customer retention (Miller, 1993; Ahmad & Buttle, 2002). Furthermore, Gronroos, (1994) and Jobber, (2004) reported that acquisition marketing is six times more expensive than that of retention. According to DeSouza, (1992), customer retention has gained more attention among firms as a result of CRM activities being more cost effective and predictably profitable. Many authors have vouched for the significant effects on profits quoting that when retention rates are improved by 5%, company profits are increased by between 25% and 85% (Jones, 1996; Reichheld et. al., 2000; Ginn et. al., 2010; Gallo, 2014). Hwang et al., (2004) states that retention is an efficient practice due to the organization's knowledge of their customers and the ability for customized market targeting.

If a customer is retained in a business there is certainly a steady flow of revenue to the business, moreover, there are chances to increase the existing revenue by cross selling or up-selling activities. In addition to this, acquiring a new customer can be a much more onerous and expensive task than keeping an existing one. UK Essays, (November, 2018).

However, some of these “profitability-arguments” related to relationship banking have been challenged by Reinartz and Kumar, (2002), who compared the behavior, revenue, and profitability of more than 16,000 individual and corporate customers over a four-year period, concluding that they discovered little or no evidence to suggest that customers who buy on a steady basis are necessarily cheaper to serve, less price sensitive, or particularly effective at bringing in new business.

They also found that a considerable amount of loyal customers were only marginally profitable, while a large percentage of short-term customers were very profitable. Woolf, (1996) argues that greater success comes from a strategy based firmly on understanding customer economics and only secondarily on customer loyalty and building relationships. However, despite their criticism, even critics themselves have suggested that customer loyalty (relationship) is a worthy contributor to the shareholder value of a company Houston, (1999; pg33), and that “firms are encouraged to study their position and options in the pursuit of this goal” Oliver, (1999; pg37).

2.2.10 Factors affecting Customer Retention rates

Buttle, (2004) asserts that customer retention is the number of customers doing business with a firm at the end of a financial year expressed as a percentage of customers that were active at the beginning of the year. While the precise meaning and measurement of customer retention can vary between industries and firms, there appears to be a general consensus that focusing on customer retention can yield several economic benefits Buttle, (2004). As customer tenure lengthens, the volumes purchased grow and customer referrals increase. Building long-term relationship with customers is considered an essential precondition for the economic survival and success of most service firms today (Berry, 1995; Heskett et al., 1994). Day, (1994) said that the identification and satisfaction of customer needs leads to improved customer retention. Clark, (1997) on the other hand, states that customer retention is potentially one of the most powerful weapons that companies can employ in their fight to gain a strategic advantage and survive in today's ever-increasing competitive environment. It is therefore, vitally important to understand the factors that impact customer retention and the role that it can play in formulating strategies and plans.

Companies can build loyalty and retention through using of number of techniques, including "database marketing, customized products in limited editions, redeemable against a variety of goods or service, issuing loyalty cards, preferential discounts, free gifts, special promotions, newsletters of magazines, member's clubs; it has also been argued that customer retention is linked to employee loyalty, since employees are the ones that build up long-term relationship with customers". Ibojo, B. O., (2015).

However, most researches emphasize that in order to enhance customer retention, businesses must particularly, focus on service quality, product quality, pricing policy and offer customer-oriented services to improve customer satisfaction. At the same time, efforts to raise the switching barrier must also be built for a long-term relationship. Ibojo, B. O., (2015).

Retention depends on how it is measured and presented, but even more on the expectations and targets set for the activity. Therefore, the need for having a model which determines the customer retention influencers so as to evaluate them is essential for businesses to be successful in the competitive markets. Ibojo, B. O., (2015).

Critical Customer Retention influencers are discussed next.

2.2.10.1. Employees

In the Journal of Marketing Management, Buttle, (2004) stresses on the importance of the front line employees. Buttle argues that employees have the power to take actions which provide immediate customer satisfaction and thereby reinforce customer retention. This necessitates actively managing interactions between customer and staff and instigating improvements to the external quality of service by increasing the levels of internal service which staffs receive from within the organization from support departments and technology.

Robert Heller, (2005; pg 117) insists that the most vital statistic for retaining a customer in any business is its employees. He quotes "that a satisfied worker creates a satisfied customer and higher financial returns: and that, by the same token, disgruntled staff lead to customer dissatisfaction". A research by staff at Sears, the US retailing giant in 2006, established a convincing and clear correlation between employee attitudes, customer attitudes and financial results.

The research showed that for every 5 units of improvement in employee attitudes, there were 1.3 units of gain on the 'customer impression' index. Moreover, the latter added up to a 0.5% increase in sales over what they would otherwise have been. This outlines the obvious linkage between employee attitudes and customer retention. Therefore, if a business wants to retain its customers, along with devising strategies for customer satisfaction, it has to bear in mind that, employee satisfaction is equally important. UK Essays, (November, 2018).

On the other hand, since it is evident that people, not organizations, build loyal relationships with customers by listening, empathizing, thinking creatively and taking appropriate action, companies should help build such relationships by empowering and supporting service providers. Empowerment is a management approach that gives service providers the authority to make decisions on behalf of the company in the course of performing their regular job functions. Ako-Nai, E. A., (2011).

Ako-Nai, E. A., (2011; pgs 24-27), asserted that factors such as, overworked, or underworked staff; having a non-caring culture and lack of incentive directly affected the level of employee satisfaction.

2.2.10.2 Competitive Advantage

In an industry where most of the insurers are offering more or less indistinguishable products for similar or the same prices, if an insurer is able to extend its quality of products ahead of the core service by way of additional and prospective service features, it is probable to gain a sustainable competitive and cutthroat advantage Chang, Chan, and Leck, (1997). Consequently, the most possible way to retain customers and enhance profitability is by means of adding value via strategy of distinction and excellence Baker, (2003) while enhancing margins through elevated and higher prices.

2.2.10.3 Customer Satisfaction

Customer satisfaction roots from a comparison between customer's expectations and experiences. It means positive reaction to a service experience. If the customers' perceived experience matches the expectations, customers are assumed to be satisfied. If the preceding expectations were higher than the gain of the service, the customers are considered to be disappointed and or dissatisfied". Ylikoski, (2000; pg. 109).

Customer satisfaction has been considered as the main element for customer retention in a lot of researches, and has consequently "moved to the forefront of relational marketing approaches" Rust and Zahorik, (1993). According to Anderson and Sullivan, (1993), the more satisfied customers are, the higher is their retention. On the other hand, there are studies and publications where "the relationship between satisfaction and retention has been noted not to be so straightforward". Hennig-Thurau and Klee, (1997). "In some industries, customer satisfaction scores tend to correlate with retention whereas in other industries, there is little or no correlation" Lowenstein, (1995; pgs. 11-12).

However, Kotler, (2003; pg. 73), on the other hand, states that firms should measure satisfaction frequently, because customer satisfaction is the key to customer retention. "The highly satisfied customer stays loyal longer, buys more from the firm, talks favorably, pays less attention to competing brands, is less sensitive to price, offers ideas to the company, and costs less to serve than new customers, because transactions are routine".

Ako-Nai, E. A., (2011; pgs 24-27), further, asserted that factors such as, poor accountability, inefficient systems, communication of customer value, lack of understanding of customer needs, and failure to deliver on promises directly affected the level of customer satisfaction.

2.2.10.4 Customer Loyalty

Majumdar, (2005) states that "Customer loyalty is a complex, multidimensional concept". In fact, the complexity of customer loyalty is reflected in the wide range of definitions within academic fields. It is often described as a feeling or attachment including primary behavior such as repeat patronage, share of purchase and active and passive secondary behaviors such as expansion of service usage, price insensitivity, customer referral and spreading of word of mouth. Ganesh, Arnold, Reynolds 2000, Jones and Sasser, (1995).

Customer loyalty is a combination of the customer's favorable attitude and repurchase behavior Kim, Park and Jeong, (2004); it is very significant as it is closely related to the company's survival and strong future growth Fornell, (1992); Ahmad and Buttle, (2002). The favorable customer's attitudes states the beliefs like buying additional products and services from the same company or repurchase intentions of the customers, their willingness to recommend the company's name to others, showing resistance of switching to another rival company Cronin and Taylor, (1992); Narayandas, (1996); Prus and Brandt, (1995) and the customer's willingness to pay premiums. The behavioral aspect considers the customer's repeat purchase probability, which is the customer's intention and willingness to repurchase the product/service from the same company, or suggesting the company's name to others.

It is also important to understand that the fact that customer loyalty makes an organization more profitable makes it imperative that complaints and other unfavorable behavioral intentions should be handled effectively and in a timely manner.

2.2.10.5 Corporate Image

Andreassen and Lindestad, (1997) suggest that for complex and infrequently purchased services corporate image rather than customer satisfaction is the main predictor of customer loyalty. Customers often consider corporate image as a benchmark for evaluating financial services Weiwei, (2007). However, empirical researches have indicated that good corporate reputation could reinforce customers' trust and promote customer repurchase (Nha Nguyen and Gaston Leblanc, 2001).

2.2.10.6 Product Quality

A prominent reason why customers do not retain with a company is that their products are not fulfilling its functions properly. "When products fail to perform their functions completely and properly, then products become useless for customers, and when customers are not satisfied with products and do not use it, they will reduce its retention and relationship with company" (Buzzell and Gale, 1987). Product quality plays a vital role in customer retention and has positive relationship with customer retention. Customers compare the perceived performance of a product or service with some performance standard. Customers are satisfied when the perceived performance is greater than the standard, while dissatisfaction occurs when there is lack of standard for performance declines. UK Essays, (November, 2018).

2.2.10.7 Service Quality

Service Quality is a critical issue in the service industry (Stafford, Stafford and Wells, 1998). A major reason for customers to switch is that companies fail to provide the better and effective customer services to them. These services include "pre-sale service and post-sale service" (Lewis and Mitchell, 1990). If customers are not satisfied with the service quality of the company, it will force them to change the service provider. Service quality is very important for the retention of the customers.

Moreover, service quality is both directly and indirectly related to retention and loyalty through satisfaction (Bloemer, De Ruyter and Peters, 1998). Therefore, those companies which deliver quality of services better than their competitors would surely have greater possibilities of success; however, quantifying service quality is not a simple task and it is too subjective.

Besides, customers today are more aware of alternatives and their expectations of service have increased. Service quality can, hence, be used as a strategic tool to build a distinctive advantage over competitors. Although quality cannot be improved unless it is measured, it can be defined from several perspectives as "the ability to satisfy the needs and expectations of customers" Bergman and Klefsjo, (1990), or "the overall features and characteristics of a product or service that bears on its ability to satisfy given needs".

Bearden and Teel, (1983) found a positive relationship existing between service quality and customer satisfaction. The positive relationship between service quality and customer satisfaction increases efficiency, market shares, profits, sales volume, revenues, and reduces cost by economies of scales, and retains customers" Anderson and Sullivan, (1993). The positive effects are further manifested in organization's chances of potential growth, better employee morale, customer loyalty and retention, customer satisfaction, economic growth and profits, employee motivation and vision, favorable advertising, greater productivity and the minimization of defecting customers.

2.2.10.8 Price

Price is another factor affecting the customer's decision of remaining with the company or defecting. By making prices more competitive, the impact of this factor in losing customers could be significantly minimized. Understanding the precise nature of price sensitivities at the individual policyholder level is extremely valuable for insurers. A rate increase has a direct impact on the premium customers are paying, but there is also the indirect impact as a result of the "causal" effect of the rate change on the customer's decision to renew the policy term. A rate increase may impair its intended impact on the overall profitability of the portfolio if it causes a large number of policyholders to lapse their policy and switch to an alternative insurer Guelman and Guillén, (2014). Thus offering competitive premium and discounts will not only help maintaining current customers, but also absorbing new ones.

2.2.10.9 Switching Barriers

Organizations must maximize the switching barrier in order to enhance customer retention. It has been demonstrated that the switching barrier plays the role of an adjustment variable in the interrelationship between customer satisfaction and customer retention. In other words, when the level of customer satisfaction is identical, the level of customer retention can change depending on the magnitude of the switching barrier. UK Essays, (November, 2018).

In a research by Ranaweera and Prabhu, (2003), it was argued that "while satisfaction may be an important driver for retention, alone it does not ensure service loyalty. Trust, switching barriers, and emotional response such as inertia and indifference might also affect retention". In their research, Ranaweera and Prabhu adopted a holistic approach to examine the combined effects of satisfaction, trust, and switching barriers in a continuous purchasing setting". The findings denoted that "customer satisfaction and trust have strong and positive effects on customer retention, although the effects of trust on retention are weaker than that of satisfaction". The results also proved that "switching barriers have a significant effect on customer retention".

According to the research, it is proved that satisfaction is the main driver of customer retention but if trust is absent, satisfaction will have less impact on retention. Satisfied customers do not often switch their service providers and therefore, the cost of retaining existing customers is significantly lower than attracting new ones. These customers may also spread their satisfaction by positive word of mouth which influences non-existent customers' desire to engage with the organization and work as free promotional agents Gronroos, (2007); Zeithmal and Bitner, (2000).

It is therefore, important for organizations to also acknowledge that customers may also switch because of the attraction of customers to competitors that are providing better service, more personable or higher quality service. In this case, customers are not switching because of unsatisfactory service; managers of service firms should understand that some customers would still switch services even when they are satisfied with a former provider Keaveney, (1995).

2.2.10.10 Customer Perceptions

Customer perceptions of value perceived value takes into account the price of the service in addition to the quality. According to Zeithaml et. al., (1988), "perceived value is the customer's overall assessment of the utility of a product based on perceptions of what is received and what is given".

Bolton and Drew, (1991) commented that consumers´ perception of value is influenced by differences in monetary costs, nonmonetary costs, customer tastes, and customer characteristics. In making the decision to return to the service provider, customers are likely to consider whether or not they received "value for their money".

2.2.10.11 Complaint Management and Service Recovery

Keaveney, (1995) states that service failure and failed recoveries are the leading cause of switching behavior in service organizations. Supporting this view, Smith et. al., (1999) suggests that it is critical that an organization's recovery efforts be equally strong and effective. Effective service recovery enhances the probability that aggrieved customers are returned to a state of satisfaction and are likely to maintain the business relationship with the service firm. According to Hart et al., (1990) successful service recovery can reverse this dissatisfaction and can sometimes lead to the customer feeling more satisfied than before the problem, a phenomenon called the 'service recovery paradox'. Gerson, (1995) on the other hand states that "happy customers, who found a solution to their complaints, will talk to 3 to 5 people about their positive experience." Yadav, (2000) added that in case of complaints, customers tend to evaluate the company's complaint-handling performance as meeting or exceeding expectations.

Service recovery therefore, occurs when a problem that causes customer dissatisfaction and a possible loss of business is fully resolved to the customer's satisfaction. Customers who experience problems or make complaints and then receive an exceptional level of service quality often tend to be more loyal than customers who never had a problem. In addition, service recovery provides an organization and its employees with an opportunity to learn from the experience and make changes to improve service. UK Essays, (November, 2018).

2.2.11 Challenges of Customer Retention

The unpredictability of human interaction is a significant challenge in retaining customers Bitner et. al., (2016). The challenges of retaining customers have implications on the bucket theory mentioned earlier. This section will focus on two main challenges found in the literature which will contribute to understanding customer retention and developing strategies around it.

2.2.11.1 Competitive Environment

Mandina, (2014) posits that fierce market competitions and rapidly changing customer needs are driven by technological advances, globalization and increased mobility as consumers have more choice than ever before with greater access to information, products and services. Customers browse information online which leads them further down the decision-making path before considering any form of purchase; he suggests that customers are less loyal as a result.

Therefore, online presence and making the online journey for the customer as easy as possible is an emerging strategy that is critical to evoking satisfaction and loyalty Gallo, (2014). With the rise in the selection of brands and services available to meet the needs of an abundance of segments as technology has expanded the use of mass customization, businesses are finding the cost of gaining new customers rapidly increasing Müller-Ötvös & Diederichs, (1997).

According to Jones & Sasser, (1995), the level of switching costs to customers depends on the competitiveness of the industry so if the cost of switching between rival businesses is low, this makes access to competitors easy for customers, in turn having an adverse effect on retention. Applying Porter's, (2008) five competitive forces reveals the link between switching costs and customer loyalty. When the bargaining power of buyers is high, switching costs are low, which is a threat to customer retention. However, it is important for businesses not to fall into the instinctive trap of reacting by slashing prices, which has the potential to compromise long-term brand loyalty Andronikidis, (2009). A strategy that introduces an organic switching barrier by building rapport between front-line staff, management and customers will raise the non-financial switching cost which can be highly effective for customer retention and loyalty Tokman et. al., (2007). It highlights the need to invest in a customer-focused relationship-building strategy that increases the competitive advantage of businesses.

2.2.11.2 Customer Complaints

Complaints by customer have a correlation to their repurchase intentions and their propensity to recommend to others. Word-of-mouth both on and offline are considered one of the strongest marketing influences on customer behavior due to the opinion being independent of the firm's biased pitch Rust & Chung, (2006). Complaints seem inevitable but their power to affect the reputation of a business is significant, so a process seems critical for reducing the effects. Ahmad and Buttle, (2001) identify complaint handling as a strategy for managing customer retention. Fornell and Wernerfelt, (1987) present a defensive marketing strategy claiming that complaint management effectively maximizes customer retention in low growth, highly competitive industries.

A number of academics have found success in service recovery as a strategy to prevent customer defection (Myhal et al., 2008; Kruger & Mostert, 2014; Bitner et al., 2016). Academics suggest that companies should facilitate or even encourage complaints as an opportunity to improve service and retain customers Bitner (et. al., 2016). By exploring some of the challenges faced by businesses in retaining customers, opportunities come to light which can shape retention strategies. The following section will explore the strategies of customer retention.

2.2.12 Customer Retention Strategy

Setting up a strategy around customer retention requires careful planning and should include detailed plans and methods for customer identification and registration, segmentation and reward design. In order to be a source of sustainable competitive advantage, the organization developing the strategy must always take into account what its loyal customers value, since loyalty and retention is inextricably linked to the creation of value Morgan et al., (2000).

The strategy should make sure that it directly supports the value proposition. A value proposition is "the full positioning of a service, the full mix of benefits upon which it is positioned" and the answer to the customer's question "Why should I buy your services?" Kotler & Armstrong, (2001). Moreover, in order to be viable, a retention strategy must build and sustain noticeable differences in its offerings that are difficult to copy, since a lack of differentiation removes any potential of competitive advantage – which is anything but easy, where first movers are quickly imitated Morgan, (2001).

It must be considered that the retention strategy does not exist in a vacuum, but should be a coherent element of the organization's overall strategy and capabilities. The strategy should take into account the nature of the business, its market position, goals, and the competitive landscape. UK Essays, (November, 2018).

The attribution of repeat business is an important element in forming strategies that enhance retention. Seldom does repeat business occur organically without the intervention of some factors, particularly regarding high involvement products and services which generally require the development of a relationship. The following strategies are discussed in the literature with the aim of retaining customers in mind. Scarff, L. J. (2017).

2.2.12.1 Optimize the Lifetime Value (LTV) of the Customer

There are a number of viewpoints on determining the value of the customer for improving retention. Chan, (2008) found that cross-selling and up-selling are both strategies that look to maximize the customer's LTV. Nacif, (2003) posits that strategies to identify downward migration in spending behavior will prevent defection. CRM intelligence is critical for recording interactions, identifying the value of a customer and prioritizing customers based on the size of the retention opportunity Coyles and Gokey, (2005). In most cases, CRM technology should not entirely substitute human interaction particularly when relationship-building and service quality are both significant elements of retention.

2.2.12.2 Customer Satisfaction and Service Quality

Applying standards across the five SERVQUAL dimensions of tangibles, reliability, responsiveness, assurance and empathy and measuring each of the standards will ultimately contribute to consistent performance. An example of this may be defining responsiveness as replying to customer queries within a specified and acceptable timeframe. If the business is consistently satisfying the standards set out to meet customer expectations, it leaves little reason for the customer to defect elsewhere and gives more reason to be loyal Bitner et al., (2016).

According to Evans and Lindsay's, (1999; 2002) quality and customer satisfaction are closely related to customer retention and two thirds of customers are lost from bad service quality. Therefore, developing policies for managing service quality are effective in presenting a positive result for retention.

However, researchers warn that measuring satisfaction alone is not a direct indicator of retention (Reichheld et. al., 2000; Mittal and Kamakura, 2001; Reichheld, 2003; Gupta & Zeithaml, 2006). Reichheld et. al., (2000, p. 134) argue that satisfaction is *"inherently unstable"* as customer attitudes shift multiple times. This could be attributed to internal adaptations that manipulate satisfaction rates but don't transfer effectively to repurchase rates. The effort to exceed expectations becomes more difficult when satisfaction rates are consistently high Gupta and Zeithaml, (2006).

2.2.12.3 Customer Feedback

Developing effective programs for retaining customers involves a company culture that is open and transparent to customer feedback and one that actively solicits feedback through surveys and responding to complaints (Reichheld, 1991; Ang & Buttle, 2006). It is difficult to justify a strategy that encourages feedback without making effective use of comments which are opportune to reducing friction with customers. Aligning the goals of the business with its staff will contribute to successful relationship development for retention.

A new form of satisfaction measure, Net Promoter Score (NPS), provides an insight into customer repurchase intentions particularly among high satisfaction rate performing dealerships Babayeva and Aliyev, (2016). The propensity to recommend to a friend has shown real scope for improving retention for those businesses that have become complacent with sufficient satisfaction scores Reichheld, (2003). The facility for customers to provide open feedback is crucial as poor satisfaction measures have seen customer feedback being ignored, possibly having an effect on retention Dillard and Bates, (2010). As the business develops its processes towards the changing needs of customers using feedback, this will contribute to sustainable customer relationships.

2.2.12.4 Customer Clubs

Some organizations make the use of customer clubs as a strategic instrument for creating customer retention. Customer clubs are communities of current customers that are initiated and organized by companies (Diller, 1997; Butscher, 1997; Butscher and Muèller, 1999). The current customers are approached for a potential membership to enable a steady direct communication and to intensify the relationship during the total time of business relation Tomzcak and Dittrich, (1999).

As an institutionalized form of added-value services, they aim at offering club members a wide range of benefits and increase customer satisfaction and loyalty. The goal of customer clubs is to improve the general operational profitability by customer retention. A customer club is regarded as a suitable platform to increase the interaction frequency between the organization and the customer (customer interaction effect) by creating contact and feedback opportunities. By doing so, a close contact is built around the client throughout the entire customer life cycle Coviello et al., (2002; pg 8). A central objective of customer clubs is the augmentation of organizational knowledge about the customer (customer knowledge effect).

With each customer contact starting from account opening, the organization receives detailed information about the personal situation, interests and demand structures of the account holders. These insights are collected in a global member data base and linked with further customer data, which form the basis for individualized marketing measures Ganesh et al., (2006; pg 65).

However, some argue that it has to be considered that the set up and development of a customer club requires considerable investments. Whereas the cost effects of these investments are obvious and can be calculated rather easily, there is no certainty with respect to the existence and degree of the expected loyalty effects. UK Essays, (November, 2018).

Also, the customer's willingness for a membership depends on the fact whether a distinct advantage is offered to them as customers are only willing to supply data and participate actively in the club membership, if their individual cost-benefit-calculation leads to a positive result Gupta et. al., (2005; pg 7). Therefore the customer club must offer a bundle of exclusive services, which are attractive for the target group from either a financial, material or communicative perspective.

2.2.12.5 Retention Measures and Process

Businesses are making several proactive changes in their service capabilities. They are developing diagnostics to understand what their customers need and value. They are examining what they need to do to retain customers and then train their people accordingly and are reinforcing service-oriented behaviors; are exploring how to anticipate and respond successfully to differences in customer requirements between geographies. UK Essays, (November, 2018).

They are leveraging the intimate product knowledge of technical people and other staff and teaching them about the critical role they play in customer retention. Some organizations are also teaming up sales, service and technical experts much further upstream in a customer relationship in ways that are cost-effective and value added Johnston, (2005; pg 211). Corporate institutions use technology to accomplish menial tasks quickly, allowing everyone in the organization the time to enhance their skills as salespeople, research and development contacts and potential consultants on complex jobs Morrman et. al., (2002; pg 314). Research done by Nyer, (2007) showed that everyone who interacts with customers must become an active agent for customer retention.

A number of organizational processes can be associated with customer retention, including customer satisfaction measurement process, customer retention planning process, quality assurance process, win-back processes and the complaints-handling process. The notion that companies should engage in planning if they want to achieve desired business outcomes is deeply embedded in modernist management literature. UK Essays, (November, 2018).

2.2.12.6 Retention Metrics

Despite the scarcity of research into customer retention planning, investigators and commentators have begun to report on a number of related questions, such as how to define and measure customer retention, how to segment customers for customer retention efforts, and what strategies to employ to recover at-risk or lost customers. Aspinall et. al., (2001) investigated the issue of definition and measurement of customer retention. They found that customer retention was particularly an issue in larger organizations but absence of measurable indicators makes it harder to gauge the impact of strategy implementation on customer retention.

Buttle, (2004) found that institutions can employ one or more of several types of retention-related KPIs – raw, sales-adjusted, or profit-adjusted customer retention metrics. Organizations that adopt raw customer retention metrics focus on the retention of a given percentage or number of customers, regardless of value. Those that use sales or profit-adjusted retention metrics will focus their efforts on customers that generate higher levels of sales or profit. Coyles and Gorkey's, (2002) research also notes the significance of focusing on the retention of profitable customers, rather than all customers.

They suggest that it may be more important for businesses to focus on managing the overall downward migration of customer spending than customer retention in its own right. They note that many more customers change their behavior than defect, so the former typically account for larger changes in value Coyles and Gorkey, (2002, p. 80). They report the case of one bank that lost 3 per cent of its total balances when 5 per cent of checking account customers defected in a year, but lost 24 per cent of its total balances when 35 per cent of customers reduced the amounts deposited in their checking accounts.

Another question that researchers have attempted to answer concerns the focus of companies' customer retention efforts (Koch, 1998; Ganesh et al., 2000). Should retention of every customer be the goal, or should retention efforts be focused on subsets or even individuals? A report by PricewaterhouseCoopers, (2002) observes that poor management of customer churn is a major value destroyer and that the key to prevention is to predict and avert attrition of the "right customers".

The "right customers" are those that contribute most significantly to the achievement of the company's objectives. The implication of there being "right" and "wrong" customers to retain is that companies are advised to segment their customer base for retention efforts in much the same way that they would segment the market for acquisition efforts Weinstein, (2002). Evans, (2002) suggests that the right customers are those with the highest residual lifetime value.

Although there has been little investigation of customer retention planning processes, there has been considerable attention paid to assessing the role and effectiveness of retention strategies and tactics directed towards valued, at-risk or lost customers.

2.3. Empirical Review

Motshedisi and Geoffrey (2011) explored the strategies that have been employed by the cell phone companies in South Africa in order to retain subscribers. While previous research has focused on customer retention strategies that are employed across different service industries this study evaluates the retention strategies that have been adopted by the cellular industry, where players are battling to retain customers or recruit new ones. The evaluation is based on the perceptions of the customers of the five cell phone network providers that operate in South Africa. The study concludes that though there are many customer retention strategies that are employed in the South African cellular industry, the most effective are those related to quality of service, affordability of service and provision of customer support services.

Haripersad and Sookdeo (2018) investigated a study on customer retention: key towards sustaining competitiveness in commercial banking in South Africa. This article sought to explore factors, which bank customers consider in their decision to leave their current bank for a competitor. Semi-structured interviews were conducted to identify the factors, which prompt customers to switch banks. A thematic analysis of data identified four themes concerning retention. The empirical findings suggest that customers sought an experience that made them feel special and valued. The results also showed that essentially, banks that pay special attention to their customers will succeed in retaining their customers.

Odunlami (2015) investigated a study on impact of Customer Satisfaction on Customer Retention: A Case Study of a Reputable Bank in Oyo, Oyo State. Nigeria. The objectives were: to determine the relationship between customer satisfaction and customer retention, and to examine the impact of customer satisfaction on customer retention. Survey research design was adopted for this study. Primary and secondary sources of data were used. The primary data includes a structured questionnaire used to elicit information from the target respondents who were customers of the reputable bank in Oyo, while the secondary data encompass the use of related materials, journals and periodicals. ANOVA and t-statistics were used to test the hypothesis, while regression analysis was used to analyze the data. The findings show the R2 value of 0.717 which reveals that customer satisfaction independently accounts for 71.7% of the variation in customer retention. The f-statistics of 41.173 reveals that the model is statistically significant at 0.05 significant levels. It was concluded that the effective satisfaction of customers will give room for customer retention. More so, there is a significant relationship between customer satisfaction and customer retention.

Ranaveer et al. (2003) showed that perceptions of service quality have a direct linear relationship with customer retention even in mass services with low customer contact like telephone users in England. Also, price perceptions and customer indifference were found to have a direct linear effect on customer retention. Cohen et al. (2006) examined several factors that influence consumers' decisions to stay with or leave their banks in New Zealand. The results of the study suggested that the most important factors for customer retention were customer satisfaction, followed by the corporate image, and switching barriers.

Conceptual Framework

How customer satisfaction, the variable that eventually affects customer retention rates, is affected by the service quality dimensions or features, is represented in the model below.

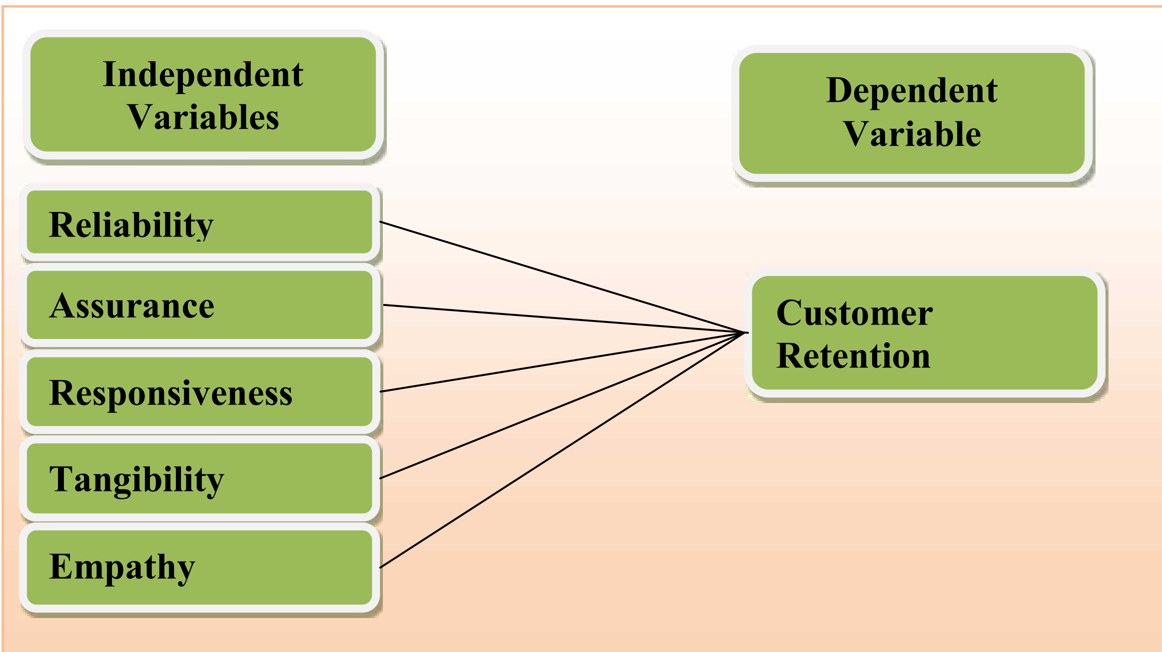


Fig.1. The Service Quality Features that influence Customer Retention Rates.

Source: Winnie Sidi (2006) and Literature

CHAPTER THREE
RESEARCH METHODOLOGY

3.1 Introduction

The main objective of this study is to assess the effect of Service Quality Features on Customer Retention in the case of Ethiopian Insurance Corporation. This chapter discusses how the research methodology is employed in the study. It indicates the research design, the population and sampling design, sample size determination, sample selection technique, source and methods of data collection and data analysis techniques.

3.2 Research Design and Approach

Research is the technique for systematic analysis of something. According to (Creswell, 2003), the term research design refers to a basic plan or strategy of research and the logic behind it, which will make it possible and valid to draw more general conclusions from it. (William, 2006), specifies that in descriptive research, knowledge that is descriptive allows us to understand what something is. Research of this nature helps us to gain a better grasp about an issue or problem we know little about. In other words, it tends to define or describe what we are trying to understand. So, the method of the study is descriptive and inferential statistics.

Descriptive research allows the use of both qualitative and quantitative data as a means to determine and describe the research results and outcomes; therefore, in order to achieve the intended objective, both quantitative and qualitative methods are chosen.

3.3 Population and Sampling Procedure

3.3.1. Target Population

A population is the whole group that the research focuses on. A population consists of all elements- individuals, item or objects whose characteristics are being studied or observed. Sample is the segment of the population that is selected for investigation (Bryman and Bell, 2003). In quantitative research, the need to sample is one that is almost invariably encountered, and sampling constitutes a key step in the research process in social survey research.

Accordingly, the population of this study is mainly the customers of the EIC's Southern Addis District that are all situated in Addis Ababa. The sample used in the study is directly drawn from the population and it is believed to clearly represent the characteristics of the larger group that is the population.

3.3.2 Sampling Method and Sample Size

This section presents the methods and techniques that were used for sampling, the procedure of sampling and eventually how the final study sample was reached from the target population and the details of how data was obtained, processed and analyzed. Information obtained from EIC's Southern Addis District Marketing Unit indicates, the total number of customers is 3,000. Uma Sekarar (2003) stated that a simplified formula to calculate sample sizes of finite population, which is used to determine the sample size for this particular study. A 96% confidence level is assumed for this formula to determine the sample size, at e=0.06 and the sample size is determined by the following formula and according to Yemane (1969) it is possible to use the sample error determination between 0.01 and 0.1.

$$n = \frac{N}{1 + N(e)2}$$

where 'n' is the required sample size,

N is the population size and

E is the level of percision

Applying the above formula, $\mathbf{n} = \frac{3000}{1+3000(0.06)2} = 254.2372 = 254$

It is very important to choose a sample that is truly representative of the population so that the conclusion derived from the sample can be generalized back to the population of interest; so the researcher used random sampling for each customer for services they get at the District. The questionnaires were distributed and collected mostly from customers that came to the office, and a few were sent to the concerned customers through their liaison officers.

Due to the limited nature of resource availability, it is not feasible to consider all members of the population as a source of data for the study and, hence, sampling is required. The selection of samples is made through clustering the respondents into relatively homogeneous groups like individuals and companies since they have their own interest in the service delivery process.

3.4 Measurement and Variables

3.4.1. Sources of data and instruments of data collection

The study is based on both secondary and primary data sources. Secondary data analysis was conducted through the detailed review of related literature books, articles, training and development policy documents; while primary information was obtained through questionnaire survey.

The data includes both secondary and primary data, and are both qualitative (ordinal), and quantitative in nature. Five points Likert scale was used to rate the independent and dependent variables, which ranges from strongly-disagree (1) to strongly agree (5) levels of agreement. These five points Likert scale are adapted from different literature reviews.

3.4.2. Study Variables

The study has two variables, namely the independent variables of Service Quality Features (reliability, assurance, responsiveness, tangibles and empathy) and the dependent variable, Customer Retention

3.5 Method of Data Analysis

The data from sample analyzed according to the objective of the study obtained through different data collection instruments is analyzed qualitatively and quantitatively. The method of the study is descriptive and inferential statistics. The qualitative data from semi-structured interview and from questionnaires and secondary documents was analyzed by using different descriptive statistical techniques. Qualitative and some quantitative data analysis was carried out by using frequency distribution, tabulation and percentages, with the help of SPSS software, for each group of items relating to the research questions.

3.5.1 Descriptive Statistics

The final report of the relevant demographic variables was produced through central tendency measurements (frequency and frequency distribution, valid and cumulative percentage, and comparison of mean); tabular explanations are also used to present the result with the help of SPSS.

3.5.2 Inferential Statistical analysis

In inferential statistical analysis, correlation and multiple linear regression methods was utilized using statistical package for social sciences (SPSS) software. The use of these statistical tools and methods of presentation are described below.

3.5.3 Correlation

Correlation (r) is used to describe the strength and direction of the relationship between two variables. Since all variables are measured as an interval level, Pearson product-moment correlation was used. Correlation "r" output always lies between -1.0 and +1.0 and if "r" is positive, there exists a positive relationship between the variables. If it's negative, the relationship between the variables is negative. While computing a correlation, the significance level shall be set at 95% with an alpha value of 0.05 or a chance of occurrence of odd correlation is 5 out of 100 observations.

3.5.4 Multiple Regression Analysis

Multiple regression analysis is a major statistical tool for predicting the unknown value of a variable from the known value of variables; and it is about finding a relationship between variables and forming a model. The Model for this study was developed using five factors or predictors which influence customer retention.

$$Y_i = \beta_0 + \beta_1 X_{1i} + \beta_2 X_{2i} + \beta_3 X_{3i} + \beta_4 X_{4i} + \beta_5 X_{5i} + \epsilon_i$$

Where Y is the dependent variable and the independent variables are those which explain the response ranges from X1 to X5.

Table 3.1 Model Specification of Variables.

No	Independent variable	Beta Coefficients (β)	Independent variable assigned by X
1.	Tangibles	β_1	X_1
2.	Reliability	β_2	X_2
3.	Responsiveness	β_3	X_3
4.	Assurance	β_4	X_4
5.	Empathy	β_5	X_5
6.		β_0	1
	Dependent variable		Variable assigned by Y
	Customer Retention		Y

3.6 Ethical consideration

The source of data for the study is a questionnaire distributed to EIC customers. The respondents are assured that the information provided by will be kept confidential and will be used exclusively for academic purposes. In addition, respondents were requested not to include any identity details and/or personal references in the questionnaire; this is believed to have minimized the biases of the responses collected from the respondents. Besides, the different research studies, articles, and textbooks used as a reference in the study are exhaustively cited. Generally, the whole process of the research was believed to be handled with acceptable professional ethics.

3.6 Validity and Reliability Test

3.6.1 Validity Test

The scientific soundness of a research finding is determined by the validity of the instruments used. All possible efforts were exerted to make the data collection instruments easily understandable by the respondents so that the intended information can be collected thereby increasing the trustworthiness of the ultimate findings. After the questionnaire was constructed, pre-testing was done, and those individuals who have knowledge of the area commented on it. Constructive comments were collected from the individuals and the questionnaire was adjusted accordingly. Then, validation of the instrument was given by the academic advisor before the data collection.

3.6.2 Reliability Test

Reliability is essentially the dependability of an instrument to test what it is designed to test. The appropriate test for reliability is inter-item consistency reliability which is popularly known as the Cronbach's Coefficient Alpha. According to Joseph and Rosemary (2003), Cronbach's Alpha Reliability Coefficient (α) normally ranges between 0 and 1. According to these authors, there is a greater internal consistency of the items if the Cronbach's Alpha Coefficient is close to 1.0. Based on the following rule of thumb of (George and Mallery, 2003, p. 231), if "α > 0.9 – 'Excellent', α >0.8 – 'Good', α >0.7 – 'Acceptable', α >0.6 – 'Questionable', α >0.5 – 'Poor', and α <0.5 – 'Unacceptable'." Table 3.2 shows that there is "acceptable" and "good" internal consistency of each of the independent variable's parameters used; and the study has the sum of the independent variables average Cronbach's Alpha value of (α = 0.963) and the reliability test of the study is therefore, located on "excellent" range.

3.7 Ethical consideration

The source of data for the study is a questionnaire distributed to EIC customers. The respondents are assured that the information provided by will be kept confidential and will be used exclusively for academic purposes. In addition, respondents were requested not to include any identity details and/or personal references in the questionnaire; this is believed to have minimized the biases of the responses collected from the respondents. Besides, the different research studies, articles, and textbooks used as a reference in the study are exhaustively cited. Generally, the whole process of the research was believed to be handled with acceptable professional ethics.

CHAPTER FOUR
RESULT AND DISCUSSION

4.1 Introduction

This section presents and explains data which was obtained from analysis. The findings have been analyzed on the basis of the specific objectives of the study. The section contains three sub-sections detailing general information and findings of the two objectives. The Effect of Service Quality Features on Customer Retention in the case of Ethiopian Insurance Corporation was undertaken involving a sample size of 254 customers. The chapter is structured in line with the objectives of the study.

4.2 Demographic Information

This section covers the respondent's age, gender and education level of the customers at EIC's Southern Addis District.

Gender

Results in table 4.1 show that more than half of the respondents, i.e., 69.7 % were male, while 30.3% were female.

Age

Results in table 4.1 indicate that the majority of the respondents were in the age group of above 51 years (35.4 %), followed by 26-35 years (31.1 %), 45-50 years (18.9 %), 36-45 years (12.6%) and 21 -25 years (2 %).

Education level

Results in table 4.1 depict that 53.5 % of the respondents have first degrees, 20.1 % have master's degrees and 25.6 % have college diplomas and below. Form this result it can be observed that the majority of the respondents had their first degrees.

Table 4.1: General Background Information of respondents

No.		Item	Frequency	Percent	Cumulative Percent
1	Sex	Male	177	69.7	69.7
		Female	77	30.3	30.3
		Total	254	100.0	100.0
2	Age	21-25 years	5	2.0	2.0
		26 - 35 years	79	31.1	33.1
		36 - 45 years	32	12.6	45.7
		45 - 50 years	48	18.9	64.6
		Above 51 years	90	35.4	100.0
		Total	254	100.0	
3	Education	College Diploma and below	65	25.6	25.6
		First Degree	136	53.5	79.1
		Master's Degree and above	51	20.1	99.2
		Others	2	.8	100.0
		Total	254	100.0	
4	How long have you been a customer of EIC?	Less than 2 years	14	5.5	5.5
		3 - 5 years	37	14.6	20.1
		6 - 8 years	63	24.8	44.9
		8 - 10 years	52	20.5	65.4
		Over 10 years	88	34.6	100.0
		Total	254	100.0	
5	Do you intend to continue doing business with EIC in the next 5 years?	Yes	201	79.1	79.1
		No	45	17.7	96.9
		Undecided	8	3.1	100.0
		Total	254	100.0	

Source: Own computation and survey, 2021

How long have you been a customer of EIC?

Results in table 4.1 indicate that 5.5% of the respondents have been with the EIC for less than 2 years, 14.6% for 3 - 5 years, 24.8% for 6- 8 years, 20.5% for 8 - 10 years and 34.6% for over 10 years.

Do you intend to continue doing business with EIC in the next 5 years?

Results in table 4.1 indicate that 79.1% of the respondents intend to continue doing business with EIC in the next 5 years, 17.7% of the respondents don't intend to stay, and 3.1% were undecided.

4.3 Reliability test

Reliability is calculated in such a way that it represents the reliability of the mean of the items, not the reliability of any single item for instance as shown in the below factor loading table, all the latent variables and their corresponding indicator variables consisted of multi-item questions. As stated by Gliem and Gliem (2003), a single item question is not reliable to conclude as compared to summated multi-item questions. In this study, Assurance, Tangibles, Responsiveness, Empathy and Reliability are explanatory variables, and Customer Retention is used as an endogenous variable. Accordingly, the study has the sum of the variables average Cronbach's alpha value of (α = 0.973) and the reliability test of the study is located on "excellent" range.

Table 4.2 Reliability Test of Variable's Using Cronbach's Alpha for customer's data

	Reliability Statistics				
No	Variable Name	Cronbach's Alpha Value	Cronbach's Alpha based on standardized items	No of items	(α) reliability ranges
Independent variables					
1	Tangibles	0.878	0.879	5	Very Good
2	Reliability	0.889	0.893	7	Very Good
3	Responsiveness	0.897	0.896	5	Very Good
4	Assurance	0.919	0.920	8	Excellent
5	Empathy	0.897	0.899	8	Very Good
Dependent variable					
1	Customer Retention	0.901	0.902	8	Excellent
	Overall	0.973	0.974	41	Excellent

Source: Own computation using SPSS of the survey, 2021

4.4 Result of survey data on Service Quality Dimensions

Tangibles

The results in table 4.3 below indicate that, 40.55 % and 19.29% of the respondents have agreed and strongly agreed that the EIC uses up-to-date equipments and technology; 36.22 % and 24.80% have agreed and strongly agreed that physical facilities are visually appealing; 37.80 % and 26.38% have agreed and strongly agreed that employees are neat and well-dressed;24.41% and 29.53% have agreed and strongly agreed that the appearance and quality of the physical facilities are consistent with those of the industry in general; and 33.46% and 24.02% have agreed and strongly agreed that the district's location is convenient.

Table 4.3: Tangibles

No	Items	Strongly Disagree	Disagree	Neutral	Agree	Strongly Agree
1	Up-to-date equipments and technology are used.	16.93 %	16.93 %	6.3 %	40.55 %	19.29%
2	Physical facilities are visually appealing.	9.45 %	21.65 %	7.78 %	36.22%	24.80%
3	Employees are neat and well-dressed	5.51 %	22.05 %	8.27 %	37.80 %	26.38 %
4	Appearance and quality of the physical facilities are consistent with those of the industry in general.	8.27 %	17.72 %	20.08 %	24.41 %	29.53 %
5	The District's location is convenient.	5.91 %	30.71 %	5.91 %	33.46 %	24.02%

Source: Own computation using SPSS and survey, 2021

Reliability

The results in table 4.4 below indicate that 50% and 24.41% of the respondents agreed and strongly agreed; while 11.42% and 6.30% of the respondents disagreed or were neutral, respectively, on that employees provide responses to customers within promised time-frames. 48.03% and 26.77% of the respondents agreed and strongly agreed; while 9.45% and 8.66% of the respondents disagreed or were neutral, respectively, on that employees are sympathetic and reassuring when customers encounter problems. 25.98% and 28.74% of the respondents agreed and strongly agreed, respectively, that employees are dependable. 32.81 % and 36.36 % of the respondents agreed and strongly agreed; while, 11.07% and 10.28% of the respondents customer records maintained are as much as possible, accurate and error free. 29.92% of the respondents agreed and 25.98% strongly agreed; while 24.80% and 4.72% of the respondents disagreed or were neutral, respectively, on that indemnity is provided without much hassle. The majority of the respondents or 51.18% have strongly agreed that the EIC is financially stable, while 48.03% have agreed that employees show sincere interest to solve customers' concern.

Table 4.4: Reliability

No	Items	Strongly Disagree	Disagree	Neutral	Agree	Strongly Agree
1	Employees provide responses to customers within promised time-frames.	7.78 %	11.42 %	6.30 %	50 %	24.41 %
2	Employees are sympathetic and reassuring when customers encounter problems.	7.09 %	9.45 %	8.66 %	48.03%	26.77%
3	Employees are dependable.	9.45 %	9.84 %	25.98 %	28.74 %	25.98 %
4	Customer records maintained are as much as possible, accurate and error free.	9.49 %	11.07 %	10.28 %	32.81 %	36.36%
5	Indemnity is provided without much hassle.	11.42 %	24.80 %	7.78 %	29.92 %	25.98%
6	EIC is financially stable.	11.81 %	4.72 %	6.30 %	25.98 %	51.18 %
7	Employees show sincere interest to solve customers' concern.	5.91 %	9.45 %	10.63 %	48.03%	25.98%

Source: Own computation using SPSS and survey, 2021

Responsiveness

The results in table 4.5 below indicate that 38.19% and 26.77% of the respondents respectively, agreed and strongly agreed; while 7.78% and 21.26% of the respondents were neutral and disagreed respectively, on that employees clearly inform customers on when and how services will be performed. 33.46% and 30.31% of the respondents agreed and strongly agreed; while 21.26% and 9.84% of the respondents disagreed and were neutral, respectively, on that employees provide customers with prompt services. 41.73% and 23.23% of the respondents agreed and strongly agreed respectively that employees are never too busy to respond promptly to customer requests. 51.97% and 27.17% of the respondents agreed and strongly agreed; while 6.30% and 9.06% of the respondents disagreed and were neutral, respectively, on that employees are happy and willing to serve customers. 30.31% of the respondents agreed and 26.38% strongly agreed; while 18.90% and 18.1% of the respondents disagreed and were neutral, respectively on that the management are accessible, listen to, and provide prompt and honest responses to customers inquiries.

Table 4.5: Responsiveness

No	Items	Strongly Disagree	Disagree	Neutral	Agree	Strongly Agree
1	Employees clearly inform customers on when and how services will be performed.	5.91 %	21.26 %	7.78 %	38.19 %	26.77%
2	Employees provide customers with prompt services.	5.12 %	21.26 %	9.84 %	33.46 %	30.31 %
3	Employees are never too busy to respond promptly to customer requests.	5.91 %	18.50 %	10.63 %	41.73 %	23.23 %
4	Employees are happy and willing to serve customers.	5.51 %	6.30 %	9.06 %	51.97 %	27.17 %
5	The management are accessible, listen to, and provide prompt and honest responses to customers inquiries.	6.30 %	18.90 %	18.11 %	30.31 %	26.38%

Source: Own computation using SPSS and survey, 2021

Assurance

Results in table 4.6 below indicate that, 43.70% and 42.91% of the respondents agreed and strongly agreed; while 1.57% 5.91% of the respondents were neutral and disagreed respectively, on that employees are trustworthy. 41.73 % and 42.13 % of the respondents agreed and strongly agreed; while 3.15% and 6.30% of the respondents disagreed and were neutral respectively, on that customers feel safe when transacting with employees. 38.74% and 42.29% of the respondents agreed and strongly agreed, respectively, on that employees are polite and friendly. 35.04% and 45.28% of the respondents agreed and strongly agreed; while 7.78% and 3.94% of the respondents disagreed and were neutral, respectively, on that adequate support is provided to employees so that they perform their tasks well. 30.71% of the respondents agreed and 51.18% strongly agreed; while 3.15% and 3.94% of the respondents disagreed and were neutral, respectively, on that EIC's services are easily accessible. The majority of the respondents or 59.05% strongly agreed that employees are competent and knowledgeable when handling their customers' requests; that 53.54% of the employees have the required skills, while 49.61% of employees are consistently courteous with customers.

Table 4.6: Assurance

No	Items	Strongly Disagree	Disagree	Neutral	Agree	Strongly Agree
1	Employees are trustworthy.	5.91 %	1.57 %	5.91 %	43.70 %	42.91%
2	Customers feel safe when transacting with Employees.	6.69 %	3.15 %	6.30 %	41.73 %	42.13%
3	Employees are polite and friendly.	8.30 %	3.56 %	7.11 %	38.74%	42.29 %
4	Adequate support is provided to employees so that they perform their tasks well.	7.87 %	7.78 %	3.94 %	35.04 %	45.28 %
5	EIC's services are easily accessible.	11.02 %	3.15 %	3.94 %	30.71 %	51.18%
6	Employees are competent and knowledgeable when handling their customers' requests.	3.94 %	8.27 %	3.54 %	25.20 %	59.05 %
7	Employees have the required skills.	5.12 %	5.12 %	6.30 %	29.92 %	53.54 %
8	Employees are consistently courteous with customers	3.15 %	4.33 %	7.09 %	35.83 %	49.61%

Source: Own computation using SPSS and survey, 2021

Empathy

The results of table 4.7 below indicate, 29.13% and 43.34% of the respondents agreed and strongly agreed; while 5.12% and 19.29% of the respondents were neutral and disagreed respectively on that employees give each customer their individual attention. 42.52% and 30.31% of the respondents agreed and strongly agreed; 3.94% and 17.72% of the respondents disagreed and were neutral, respectively, on that employees fully understand the needs of their customers. 37.01% and 28.35% of the respondents agreed and strongly agreed respectively, on that employees have the best interests of the customer at heart. 54.15% and 25.69% of the respondents agreed and strongly agreed; 4.35% and 7.11% of the respondents disagreed and were neutral, respectively, on that working hours are generally convenient to customers. 24.80% and 55.51% of the respondents agreed and strongly agreed; while 7.09% and 4.33% of the respondents disagreed and were neutral, respectively, on that customers enjoy the close relationships employees maintain with them. 25.98% of the respondents agreed on that the company uses reliable, knowledgeable and efficient intermediaries (brokers and agents), 48.03% of the employees demonstrate integrity and trustworthiness when dealing with customers, while 50% of the employees are committed to ethics and promote ethical behavior at the work place.

Table 4.7: Empathy

No	Items	Strongly Disagree	Disagree	Neutral	Agree	Strongly Agree
1	Employees give each customer their individual attention.	5.12 %	5.12 %	19.29 %	29.13 %	43.34 %
2	Employees fully understand the needs of their customers.	5.51 %	3.94 %	17.72 %	42.52 %	30.31%
3	Employees have the best interests of the customer at heart.	5.91 %	3.94 %	24.80 %	37.01 %	28.35%
4	Working hours are generally, convenient to customers.	8.70 %	4.35 %	7.11 %	54.15 %	25.69%
5	Customers enjoy the close relationships employees maintain with them.	8.27 %	7.09 %	4.33 %	24.80 %	55.51 %

No	Items	Strongly Disagree	Disagree	Neutral	Agree	Strongly Agree
6	The company uses reliable, knowledgeable and efficient intermediaries (brokers and agents).	10.63 %	3.54 %	37.40 %	25.98%	22.44%
7	Employees demonstrate integrity and trustworthiness when dealing with customers.	3.94 %	8.27 %	5.12 %	48.03 %	34.65%
8	Employees are committed to ethics and promote ethical behavior at the work place.	5.12 %	5.51 %	6.69 %	50 %	32.68 %

Source: Own computation using SPSS and survey, 2021

Customer Retention

The results of table 4.8 below indicate that, 48.82% and 26.38% of the respondents agreed and strongly agreed; while, 8.27% and 10.24% of the respondents disagreed and were neutral, respectively, on that retaining customers improves profitability of EIC. 49.80% and 24.90% of the respondents agreed and strongly agreed; while 6.72% and 9.88% of the respondents disagreed and were neutral, respectively, on that customer retention is an indicator of a satisfied customer. 35.85% and 40.55% of the respondents agreed and strongly agreed respectively, on that introduction of new products will lead to customer retention. The majority of the respondents have respectively agreed on, in the following manner, that training of employees will increase customer retention (35.04%); customer feedback and follow ups will lead to customer retention (38.19%); effective communication leads to customer retention, (50.79%); level of customer involvement increases customer retention (48.43%); customer trust increases customer retention (61.02%).

Table 4.8: Customer Retention

No	Items	Strongly Disagree	Disagree	Neutral	Agree	Strongly Agree
1	Retaining customers improves profitability of EIC.	6.30 %	8.27 %	10.24 %	48.82 %	26.38 %
2	Customer retention is an indicator of a satisfied customer.	8.70 %	6.72 %	9.88 %	49.80%	24.90%
3	Introduction of new products will lead to customer retention.	8.66 %	9.06 %	5.91 %	35.83 %	40.55%
4	Training of employees will increase customer retention.	12.20 %	6.69 %	24.02 %	35.04 %	22.05 %
5	Customer feedback and follow ups will lead to customer retention.	4.72 %	9.06 %	20.47 %	38.19 %	27.56 %
6	Effective communication leads to customer retention.	4.72 %	6.69 %	9.45 %	50.79 %	28.35 %
7	Level of customer involvement increases customer retention.	3.15 %	5.91 %	10.24 %	48.43 %	32.28%
8	Customer trust increases customer retention.	5.51 %	3.94 %	6.69 %	61.02 %	22.83%

Source: Own computation using SPSS and survey, 2021

4.5 Descriptive Statistics of the variables

Table 4.9 below presents the descriptive statistics of Assurance, Tangibles, Responsiveness, Empathy and Reliability and the dependent variable of Customer Retention. The results in the table show that Assurance had the highest mean score of 4.1393 followed by Empathy with an overall mean score of 3.9162 and the relatively low overall mean score was recorded by Tangibles which is 3.4386. Regarding the dependent variables summary, statistics shows that Customer Retention has the relatively highest mean score value which is 3.8157.

Table 4.9: Descriptive Statistics

Descriptive Statistics					
	N	Minimum	Maximum	Mean	Std. Deviation
Tangibles	254	1.00	5.00	3.4386	1.07751
Reliability	254	1.00	5.00	3.6979	0.97114
Responsiveness	254	1.00	5.00	3.6394	1.01141
Empathy	254	1.00	5.00	3.9162	0.96770
Assurance	254	1.00	5.00	4.1393	0.90734
Customer Retention	254	1.00	5.00	3.8157	0.85656

Source: Own computation using SPSS and survey, 2021

4.6 Correlation analysis

Correlation is an analysis that measures the strengths of the association between two variables. The value of the correlation coefficient varies between +1 and -1. When the value of the correlation coefficient lies around ± 1, then it is said to be a perfect degree of association between the two variables. The more the correlation coefficient value goes towards 0, the relationship between the two variables becomes weaker (Cohen& West, 2003). The Pearson's correlation coefficient analysis helped the researcher to better understand whether there was a positive relationship, negative relationship, or no correlation between the dependent variable and independent variables. Thus, the strength and direction of relationship between variables was able to be analyzed by the researcher using Pearson correlation coefficient analysis. In addition, the researcher used it to measure whether there was a significant relationship between independent variables and dependent variable.

Table 4.10: Correlation matrix of dependent and independent variables

Correlations							
		Tangibles	Reliability	Responsiveness	Empathy	Assurance	Customer Retention
Tangibles		1	.581**	.593**	.461**	.418**	.647**
	Sig.		.000	.000	.000	.000	.000
	N	254	253	254	253	253	253
Reliability		.581**	1	.735**	.817**	.769**	.889**
	Sig.	.000		.000	.000	.000	.000
	N	253	253	253	253	253	253
Responsiveness		.593**	.735**	1	.722**	.515**	.768**
	Sig.	.000	.000		.000	.000	.000
	N	254	253	254	253	253	253
Empathy		.461**	.817**	.722**	1	.759**	.833**
	Sig.	.000	.000	.000		.000	.000
	N	253	253	253	253	253	253
Assurance		.418**	.769**	.515**	.759**	1	.804**
	Sig.	.000	.000	.000	.000		.000
	N	253	253	253	253	253	253
Customer Retention		.647**	.889**	.768**	.833**	.804**	1
	Sig.	.000	.000	.000	.000	.000	
	N	253	253	253	253	253	253
**. Correlation is significant at the 0.01 level (2-tailed).							

Source: Own computation using SPSS and survey, 2021

Table 4.10 above indicates the correlation analysis generated for all the variables to define correlation coefficients with a two tailed significance test. The identified independent variables contributing to Customer Retention are Assurance, Tangibles, Responsiveness, Empathy and Reliability. The dependent variable here is Customer Retention.

4.7 Regression Analysis

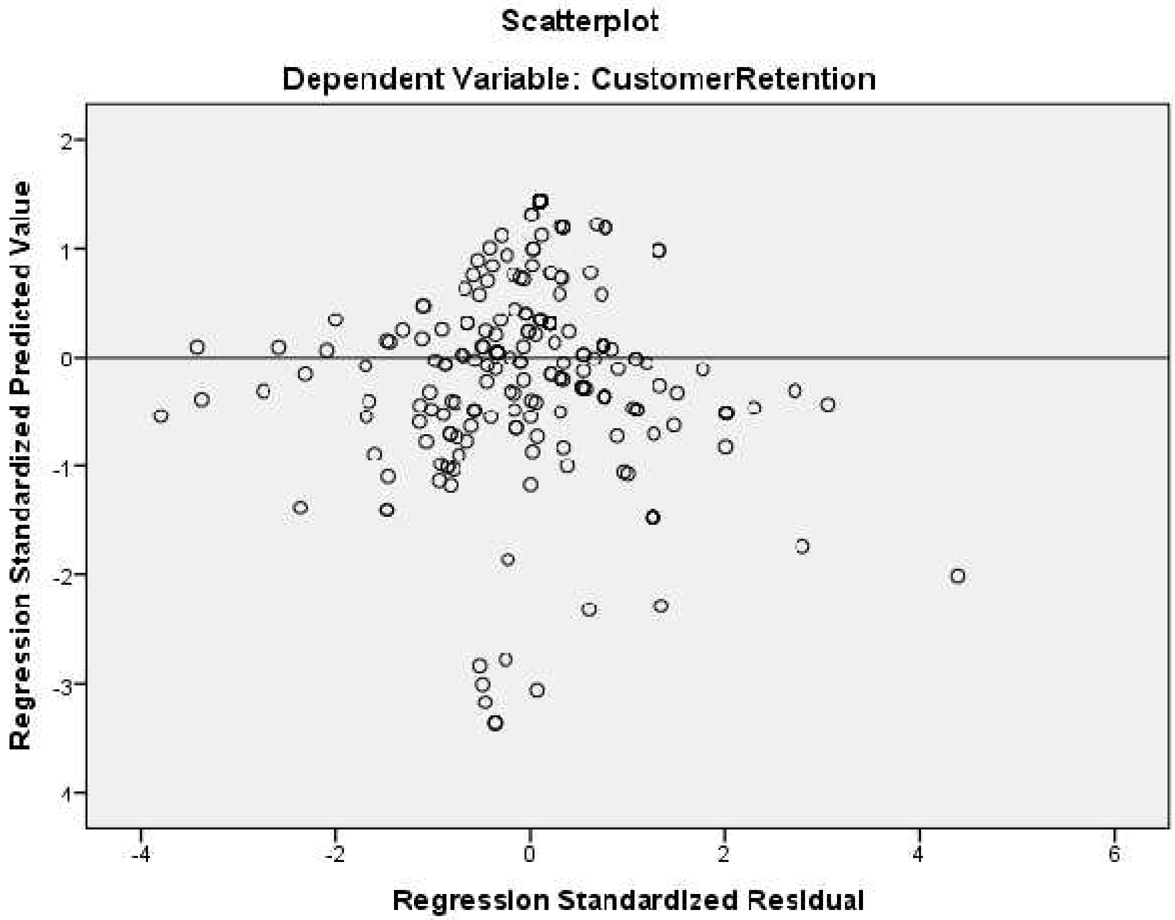
Multiple linear regression analysis is an extension of bivariate regression analysis which allows the simultaneous investigation of the effect of two or more independent variables on a single dependent variable. It allowed the researcher to examine which independent variables have the most significant influence on the dependent variable. Thus, to understand the relationship between multiple independent variables and the single dependent variable the study used the regression model summary and the researcher examined the regression coefficients for each independent variable. Therefore, Multiple Regression Analysis was used to analyze the effect of Service Quality Features on customer retention in the case of Ethiopian Insurance Corporation.

4.7.1 Diagnostic Tests

Before conducting regression analysis, the researcher performed diagnostic tests. They included multicollinearity, normality and heteroskedasticity.

4.7.1.1 Homoscedasticity Test

Homoscedasticity indicates that the variance of errors is the same across all levels of the IV. Homoscedasticity of the residuals, in the scatter plots of the residuals the variance of the residuals about predicted dependent variable scores should be the same for all predicted scores. This is the case as the residuals are randomly dispersed around the centre line; the test is presented in the following figure.



Source: Own computation, survey 2021

Figure 4.1 Homoscedasticity Test

4.7.1.2 Autocorrelation Test

Autocorrelation means that there is a correlation between the error terms. There are different tests presented in the literature to check for the existence of autocorrelation problems; the Durbin-Watson Statistic being the most common one. Durbin-Watson statistic is approximately 2, and an acceptable range is 1.4 - 2.50. As it can be observed from the table 4.11 below, the Durbin-Watson statistic value is 1.473 and this value almost approaches 2 therefore, there is no autocorrelation problem in this model.

Table 4.11: Autocorrelation Test

Model Summary					
Model	R	R Square	Adjusted R Square	Std. Error of the Estimate	Durbin-Watson
1	.939[a]	.882	.880	.29702	1.473
a. Predictors: (Constant), Assurance, Tangibles, Responsiveness, Empathy, Reliability					
b. Dependent Variable: Customer Retention					

Source: Own computation using SPSS and survey, 2021

4.7.1.3 Multicollinearty Test

Multicollinearity refers to the situation in which the independent/predictor variables are highly correlated. When independent variables are correlated, there is an “overlap” or sharing of predictive power. This may lead to the paradoxical effect, whereby the regression model fits the data well, but none of the predictor variables has a significant impact in predicting the dependent variable. This is because when the predictor variables are highly correlated, they share essentially the same information. Thus, together, they may explain a great deal of the dependent variable, but may not individually contribute significantly to the model. The existence of multicollinearity can be checked using “Tolerance” and “VIF” values for each predictor variable. Tolerance values less than 0.10 and VIF (variance inflation factor) greater than 10 indicates the existence of multicollinearity (Robert, 2006). The VIF is a measure of the reciprocal of the complement of the inter-correlation among the predictors. The decision rule is a variable whose VIF value is greater than 10 and indicates the possible existence of a multicollinearity problem. Tolerance (TOL) defined as 1/VIF, it also used by many researchers to check on the degree of collinearity. The decision rule for tolerance variable whose TOL value is less than 0.1 shows the possible existence of a multicollinearity problem (Gujarati, 2004).

Based on the test results indicated below in table 4.12, all the variance inflated factor (VIF) values are less than 10 and also all the tolerance value greater than 0.1 therefore, in this model there is no high multicollinearity problem. Multicollinearity problem it is not a matter of existence rather it is a matter of degree.

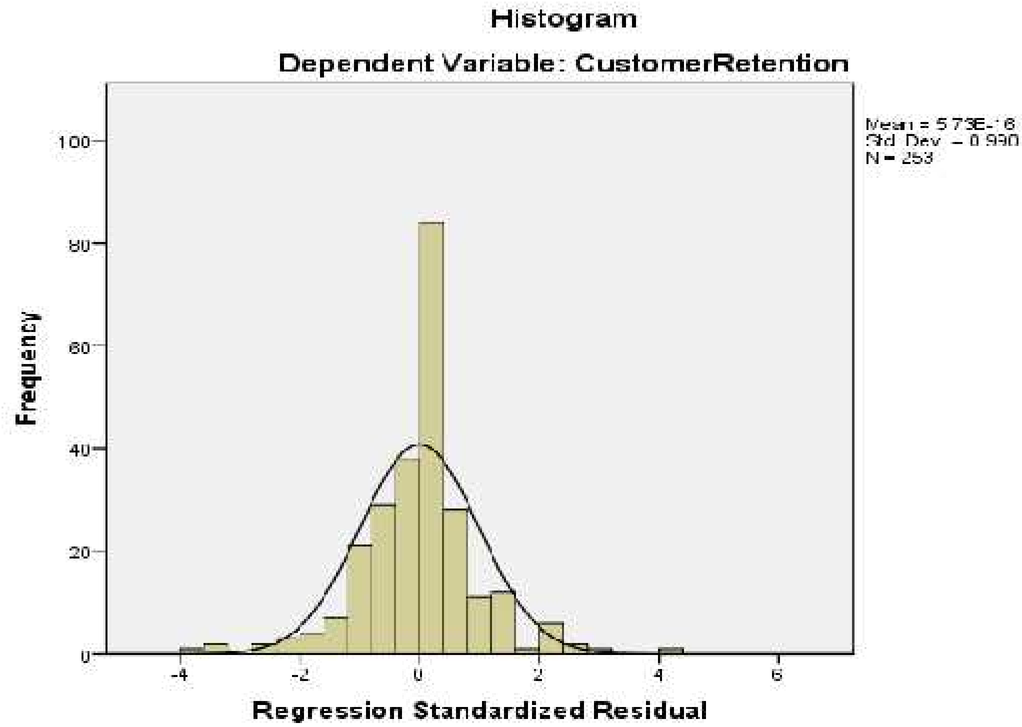
Table 4.12: Test of Multicollinearity

Model	Collinearity Statistics	
	Tolerance	VIF
(Constant)		
Tangibles	.592	1.690
Reliability	.214	4.666
Responsiveness	.348	2.876
Empathy	.244	4.091
Assurance	.333	3.001

Source: Own computation using SPSS and survey, 2021

4.7.1.4 Normality Test

Normality test is used to determine if a data set is well-modeled by a normal distribution and to compute how likely it is for a random variable underlying the data set to be normally distributed. (from Wikipedia, free encyclopedia). Normality test is also one of the additional assumptions of linear classical ordinary least Square method. Multiple regressions require the residuals to be normally distributed. Multiple regressions assume that variables have normal distributions. This means that the errors between observed and predicted values (i.e., the residuals of the regression) should be normally distributed. This assumption may be checked by looking at a histogram or a Q-Q-Plot. Normality can also be checked with the decision obtained by looking at the normal probability plots; i.e., from the points where the data points form a linear pattern, so that it can be considered as consistent with a normal distribution. The result of the test is presented in figure 4.1 below.



Source: Own computation using SPSS and survey, 2021

Figure 4.1 Normality Test

4.7.1.5 Test of Linearity

Standard multiple regression can only accurately estimate the relationship between dependent and independent variables if the relationships are linear in nature. If the relationship between independent variables (IV) and the dependent variable (DV) is not linear, the results of the regression analysis will under -estimate the true relationship.

4.7.2 Regression results and discussions

The next part presents the results of the regression output on the Effect of Service Quality Features on Customer Retention in the case of Ethiopian Insurance Corporation. Model Summary, ANOVA, and Beta Coefficient were determined, and the Regression Model was developed using Multiple Linear Regression analysis.

Model Summary

The R value is the correlation coefficient between the dependent variable and the independent variables. According to the model summary in Table 4.13 below, the value of correlation coefficient (R) for a set of independent variables (Assurance, Tangibles, Responsiveness, Empathy, and Reliability) with the dependent variable (customer retention) is 0.745. Therefore, there was a high positive correlation between those independent variables and dependent variable. Table 4.13 shows the coefficients of correlation, determination and R square as 0.882. Thus, 88.2% variation in customer retention is explained by the employed explanatory variable i.e., Assurance, Tangibles, Responsiveness, Empathy, and Reliability. This therefore indicates that there are other factors that the study did not cover that explain 11.8% variation in Customer Retention.

Table 4.13: Model Summary

Model Summary				
Model	R	R Square	Adjusted R Square	Std. Error of the Estimate
1	.939[a]	.882	.880	.29702
a. Predictors: (Constant), Assurance, Tangibles, Responsiveness, Empathy, Reliability				
b. Dependent Variable: Customer Retention				

Source: Own computation using SPSS and survey, 2021

ANOVA Test

Analysis of variance in this study was used to determine whether the model was a good fit for the data. The F value of the test for the data in Table 4.14 below is 369.75. The p-value associated with F value .000 which is lower than the alpha value 0.05. In addition, ANOVA table indicates that there was significant impact of the independent variables on the dependent variable and the model applied was significantly suitable to predict the dependent variable.

Table 4.14: ANOVA table

ANOVA[a]						
Model		Sum of Squares	Df	Mean Square	F	Sig.
1	Regression	163.101	5	32.620	369.752	.000[b]
	Residual	21.791	247	.088		
	Total	184.892	252			
a. Dependent Variable: Customer Retention						
b. Predictors: (Constant), Assurance, Tangibles, Responsiveness, Empathy, Reliability						

Source: Own computation using SPSS and survey, 2021

Table 4.15: Regression Output

Coefficients						
Model		Unstandardized Coefficients		Standardized Coefficients	t	Sig.
		B	Std. Error	Beta		
1	(Constant)	.143	.094		1.525	.129
	Tangibles	.133	.023	.168	5.901	.000
	Reliability	.283	.042	.321	6.810	.000
	Responsiveness	.151	.031	.179	4.819	.000
	Empathy	.135	.039	.153	3.454	.001
	Assurance	.263	.036	.279	7.364	.000
a. Dependent Variable: Customer Retention						

Source: Own computation using SPSS and survey, 2021

Standardized Beta Coefficient: It is the coefficient that can explain the relative importance of explanatory variables. These coefficients are obtained from regression analysis after all the explanatory variables are standardized. Table 4.15 above shows the standardized coefficient of Reliability is the largest value followed by assurance, responsiveness, tangibles and empathy, respectively. The larger the standardized coefficient, the higher is the relative effect of the factors on customer retention.

To understand the effect the independent variable have Customer Retention, Multiple Regression was used as a model. It allows us to compare the predictive ability of particular independent variables and to find the best set of variables to predict a dependent variable. As depicted below in Table 4.15, from the unstandardized coefficient values listed as β, the study constructs the following regression equation: The study determined the relationship between customer retention and independent variables.

Unstandardized Beta Coefficient ($\boldsymbol{\beta}$): As defined in chapter three, the unstandardized coefficients ($\boldsymbol{\beta}1$ up to $\boldsymbol{\beta}5$) are the coefficients of the estimated regression model. Hence, by including the error term (ε), the model for customer retention can be written as;

$$Y_i = \beta_0 + \beta_1 X_{1i} + \beta_2 X_{2i} + \beta_3 X_{3i} + \beta_4 X_{4i} + \beta_5 X_{5i} + \epsilon_i$$

$$\hat{Y}_i = 0.143 + 0.133X_{1i} + 0.283X_{2i} + 0.151X_{3i} + 0.135X_{4i} + 0.263X_{5i}$$

The intercept ($\boldsymbol{\beta}0$) is the point on the vertical axis where the regression line crosses the Y axis. The value of $\boldsymbol{\beta}0$ is 0.143 which means the expected value of Customer Retention is 0.143 when all the eight explanatory variables assume zero value.

Out of the five variables all factors are found to have a statistically significant effect on customer retention; the significant variables being, Assurance, Tangibles, Responsiveness, Empathy, and Reliability.

4.7.3 Discussion of the Regression result

Assurance

The regression output of model table 4.15 above indicates that, the coefficient of Assurance is 0.263. The coefficient is positive and has a statistically significant effect on Customer Retention at one percent level of significance. The coefficient of Assurance is interpreted as holding constant other explanatory variables when export increased by one percent, the level of customer retention increases by 0.263 units. Therefore, the study failed to accept the null hypothesis that assurance has a negative effect on customer retention. This means, there is enough evidence to support the positive relationship between customer retention and assurance. The relationship is positive as expected.

Tangibles

The regression output of model table 4.15 above indicates that, the coefficient of Tangibles is 0.133. The coefficient is positive and has a statistically significant effect on Customer Retention at one percent level of significance. The coefficient of Tangibles interpreted as holding constant other explanatory variables when Tangibles increased by one percent, the level of Customer Retention increases by 0.133 units. Therefore, the study failed to accept the null hypothesis that Tangibles has a negative effect on Customer Retention. This means, there is enough evidence to support the positive relationship between Customer Retention and Tangibles. The relationship is positive as expected.

Tangibility provides physical representations or images of the service that customers, particularly new customers, will use to evaluate quality. Service organizations often use tangibles to enhance their image, provide continuity and signal quality to customers. In contrast, organizations that do not pay attention to tangibility dimensions of the service strategy can confuse and even destroy a good strategy Wilson et al., (2008).

Responsiveness

The regression output of model table 4.15 above indicates that, the coefficient of Responsiveness is 0.151. The coefficient is positive and has a statistically significant effect on Customer Retention at five percent level of significance. The coefficient of Responsiveness is interpreted as holding constant other explanatory variables when Responsiveness increases by one percent, the level of Customer Retention is increased by 0.151 units. Therefore, the study failed to accept the null hypothesis that Responsiveness has a negative effect on customer retention. This means, there is enough evidence to support the positive relationship between Customer Retention and Responsiveness. The relationship is positive as expected.

Empathy

The regression output of model table 4.15 above indicates that, the coefficient of Empathy is 0.135. The coefficient is negative and has a statistically significant effect on Customer Retention at one percent level of significance. The coefficient of Empathy is interpreted as holding constant other explanatory variables when Empathy increases by one percent, the level of Customer Retention increases by 0.135 units. Therefore, the study failed to accept the null hypothesis that Empathy has a negative effect on customer retention. This means, there is enough evidence to support the positive relationship between Customer Retention and Empathy. The relationship is positive as expected.

According to Wilson et al. (2008), the essence of empathy is conveying, through personalized or customized service, that the customers are unique and special and that their needs are understood. Empathetic firms have not lost touch with what it is like to be a customer of their own organization.

Reliability

The regression output of model table 4.15 above indicates that, the coefficient of Reliability is 0.283. The coefficient is positive and has a statistically significant effect on Customer Retention at one percent level of significance. The coefficient of Reliability is interpreted as holding constant other explanatory variables when Reliability increases by one percent, the level of Customer Retention increases by 0.283 units. Therefore, the study failed to accept the null hypothesis that Reliability has a negative effect on Customer Retention. This means, there is enough evidence to support the positive relationship between Customer Retention and Reliability. The relationship is positive as expected.

Wilson et al. (2008) state that reliability means that the organization delivers on its promises about service delivery, service provision and problem resolution. Even though unreliable service providers are extremely frustrating for customers, a disturbing number of organizations still fail to keep their promises regarding service delivery. In many instances, the customer is ready to spend money if only the service provider will show up and conduct the transaction as promised Bateson and Hoffman (2011). Reliability is consistently the most important determinant of perceptions of service quality Wilson, Zeithaml, Bitner and Gremler, (2008).

CHAPTER FIVE
SUMMARY, CONCLUSION AND POLICY RECOMMENDATIONS

5.1 Introduction

This chapter presents the summary of findings, conclusion and policy recommendations based on the findings from the study. Summary of findings and conclusions from the estimated results is presented in the next section while section 5.4 presents policy implications on the basis of the findings of this study.

5.2 Summary

The main objective of the study is to analyze the Effect of Service Quality Features on Customer Retention in the case of Ethiopian Insurance Corporation. In Chapter Two of the literature review of this study, five variables, namely, assurance, tangibles, responsiveness, empathy and reliability have been identified as affecting Customer Retention rates.

Before proceeding to the detail analyses of the study, a reliability test was administered to check whether the questionnaires were reliable or not. Accordingly, Table 4.2 illustrates all the questionnaires were reliable and acceptable with an overall Cronbach's Alpha result of 0.973.

Regarding the demographic information of respondents summarized in Table 4.1 the majority, i.e. 69.7% were male; 35.4% of these were above 51 years of age; while, 31.1%, were aged between 26-35 years. Their educational levels indicate that 53.5% have their first degrees; and 24.8% of the respondents have been customers at the EIC between 6-8 years.

Finally, the Regression Analysis results, of Table 4.15 indicate that for all the independent variables (Assurance, Tangibles, Responsiveness, Empathy and Reliability) the model tested is significant ($p<0.000$), with the R square being 0.882. This value indicates that 88.2% of the variation in Customer Retention is explained by the five independent variables entered in to the Regression, while the remaining 11.8% of the variation is unexplained by this model.

5.3 Conclusions

In today's competitive environment, standing out from other competitor requires business firms to go the extra mile; this is because, customers expect better service quality from their service providers. Understanding the needs of customers and improving the service quality on the basis of their demand is a critical issue.

The quality of service delivery is becoming a very crucial issue in today's Ethiopian Insurance Industry; it is actually considered as a major factor that differentiates one insurance company from the other. The main objective of this study to analyze the Effect of Service Quality Features on Customer Retention in the case of Ethiopian Insurance Corporation; and to address this issue, the study aimed to find answers to the following basic research questions.

1. How do Service Quality Features influence Customer Retention at the EIC?
2. What are the possible measures that should be taken by EIC to meet the expectations of customers to improve the level of customer retention?
3. What are the major factors that affect customer retention at the EIC?

Therefore, based on the research questions and specific objectives the following conclusions are made, while investigating the effects of the Service Dimensions of Assurance, Tangibles, Responsiveness, Empathy and Reliability on Customer Retention at the EIC.

Based on the findings, Customer Retention is a critical factor for every organization to be successful. This research work therefore, justifies that customer retention has a positive relationship with, and positively impacts the service dimensions of assurance, tangibles, responsiveness, empathy and reliability.

The Multiple Regression Assumptions of Multicollinarity, Autocorrelation, Normality and Heteroskedasticity tests were all met accordingly in the model. The ANOVA test result in model showed that, the value of R and R2 obtained under the model summary was statistically significant and overall significant. The Multiple Linear Regression analysis of the independent and dependent variables shows that in the model, all five independent variables, positively and statistically significant affect Customer Retention.

From the overall study results, the researcher concluded that assurance, tangibles, responsiveness, empathy and reliability are the key factors that affect Customer Retention in the Ethiopian Insurance Corporation.

5.4 Policy Recommendations

Based on the conclusions, the following recommendations are suggested.

- Satisfied customers are assets as they not only generate profits, but also bring aboard new customers for the EIC, by convincing them of their good service experiences with the EIC; word of mouth is very strong medium of advertisement than any other media.
- Service Quality is a very important issue as far as service delivery in today's industry is concerned. More so because competition is fierce in the insurance industry of Ethiopia. To stay in competition, service providers must set deliverable goals; and to be ahead of competitors or to remain in competition, service providers must give more than the expectation of customers so as to delight them.
- Reliability dimension is considered as one of the most important factors influencing customer satisfaction. Therefore, the EIC should work more on improving indicators of this dimension, by for example, ensuring that service providers provide responses to customers within promised time-frames, and that the appropriate levels of indemnity are settled out to customers without much hassle; the service providers are dependable, sympathetic and reassuring when customers encounter problems, and show genuine interest to address the concerns of customers whenever necessary.

  Furthermore, accurate premium calculations, filling documents correctly and maintaining accurate and error free records as much as possible are additional attributes of the Reliability dimension.

  Reliability improvements lie at the heart of service quality enhancement efforts because unreliable service implies broken promises on the attributes that customers care about (Loverlock & Wright, 1999). If the core service is not performed reliably, customers may assume that the company is incompetent and may switch to another service provider.
- Responsiveness is also major factor affecting Customer Retention rates through Customer Satisfaction. Therefore, the EIC should strive to improve its responsiveness rates, by for

example, increasing its number of customer service providers, and give them periodic trainings so that service providers become competent and professional. In addition, service providers should clearly inform customers on when and how services will be performed; and should provide customers with prompt services. The management, should as much as possible, be accessible, listen to, and provide prompt and honest responses to customers inquiries.

- As the service quality dimensions (i.e. tangibles, reliability, responsiveness, assurance and empathy) directly affect Customer Retention through Customer Satisfaction; they should be strategized by incorporating them into the long term and short term corporate strategies.

5.5 Limitations of the study

This study was conducted at the time when the covid-19 pandemic was at its very frightening stage (around May, 2020); the number of customers coming to the district was very restricted, so was their communication with the services providers. Furthermore, most customers found the exchange of documents very stressing, including the exchange of questionnaires they regarded as unnecessary and a major health risk at the time. This was manifested in their lack of interest and willingness to spare time and to fill out the questionnaires, thus the main reason for delay of this study. Un-returned and incomplete questionnaires are also other problems that make the study limited.

5.6 Suggestions for Future Research

An attempt to extend the study coverage on different insurance companies in the country, change factors and the application of advanced model could also be considered for future study in order to enhance the generalization of the findings, and to further investigate and/or appreciate the actual connections of service quality and Customer Retention in insurance companies in the context of the Ethiopian insurance industry.

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Appendix

Dear Respondent,

My name is Etsehiewet Abebe and, I am studying MBA, in Financial Services studies, in Addis Ababa University. I am conducting a study on the ***"Effect of Service Quality Features on Customer Retention: The Case of Ethiopian Insurance Corporation"***; and to this end, you have been selected as a valuable participant.

This study is conducted as a partial fulfilment of the requirements for MBA, in Financial Services studies, and all information obtained from this questionnaire will be used as a primary data in my study. Therefore, in order for this research to yield valid results, it is important that you answer all questions as honestly and truthfully as possible, as the questions mainly attempt to measure those factors that ultimately affect Customer Retention at EIC.

Finally, please be kindly assured that your responses will remain strictly confidential, and be utilized for the desired academic purposes only.

Thank you very much for your very valuable time, and your voluntary participation!!!.

Best regards,

Etsehiewet Abebe
Principal Customer Care Officer
Ethiopian Insurance Corporation
Southern Addis District
0911657479 / 0115157903

Part I: Background Information

Please kindly tick (√) on the appropriate answer.

1. Gender:

   A. Male ☐ B. Female ☐

2. Please indicate your educational background

   A. College Diploma and below ☐ B. First Degree ☐ C. Masters Degree and above ☐

   D. Others, specify ______________________________

3. Age

   A. 21- 25 years ☐ C. 36 - 45 years ☐ E. above 51 years ☐

   B. 26 - 35 years ☐ D. 45 - 50 years ☐

4. For how long have you been a customer of Ethiopian Insurance Corporation (EIC)?

   A. Less than 1 year ☐ C. 6-10 years ☐ E. above 15 years ☐

   B. 1-5 years ☐ D. 11-15 years ☐

5. Do you intend to continue doing business with EIC in the next 5 years?

   Yes ☐ No ☐ Undecided ☐

Part II: Service Quality

This part deals with the Service Quality delivery at EIC. Please kindly select your answer by ticking (√) on the option you feel clearly expresses your level of agreement.

Main Factor	Service Dimensions	Strongly disagree	Disagree	Neutral	Agree	Strongly agree
Tangibles	1. Up-to-date equipments and technology are used.					
	2. Physical facilities are visually appealing.					
	3. Employees are neat and well-dressed					
	4. Appearance and quality of the physical facilities are consistent with those of the industry in general.					
	5. The District's location is convenient.					
Reliability	6. Employees provide responses to customers within promised time-					

Main Factor	Service Dimensions	Strongly disagree	Disagree	Neutral	Agree	Strongly agree
	frames.					
	7. Employees are sympathetic and reassuring when customers encounter problems.					
	8. Employees are dependable.					
	9. Customer records maintained are as much as possible, accurate and error free.					
	10. Indemnity is provided without much hassle.					
	11. EIC is financially stable.					
	12. Employees show sincere interest to solve customers' concern.					
Responsiveness	13. Employees clearly inform customers on when and how services will be performed.					
	14. Employees provide customers with prompt services.					
	15. Employees are never too busy to respond promptly to customer requests.					
	16. Employees are happy and willing to serve customers.					
	17. The management are accessible, listen to, and provide prompt and honest responses to customers inquiries.					
Assurance	18. Employees are trustworthy.					
	19. Customers feel safe when transacting with Employees.					
	20. Employees are polite and friendly.					
	21. Adequate support is provided to employees so that they perform their tasks well.					
	22. EIC's services are easily accessible.					
	23. Employees are competent and knowledgeable when handling their customers' requests.					
	24. Employees have the required skills.					
	25. Employees are consistently					

Main Factor	Service Dimensions	Strongly disagree	Disagree	Neutral	Agree	Strongly agree
	courteous with customers					
Empathy	26. Employees give each customer their individual attention.					
	27. Employees fully understand the needs of their customers.					
	28. Employees have the best interests of the customer at heart.					
	29. Working hours are generally, convenient to customers.					
	30. Customers enjoy the close relationships employees maintain with them.					
	31. The company uses reliable, knowledgeable and efficient intermediaries (brokers and agents).					
	32. Employees demonstrate integrity and trustworthiness when dealing with customers.					
	33. Employees are committed to ethics and promote ethical behavior at the work place.					

Part III: Customer Retention

This part attempts to identify those factors that affect Customer Retention rates at EIC. Please kindly select your answer by ticking **(√)** on the option you feel clearly expresses your level of agreement.

No	Particulars	Strongly disagree	Disagree	Neutral	Agree	Strongly agree
1.	Retaining customers improves profitability of EIC.					
2.	Customer retention is an indicator of a satisfied customer.					
3.	Introduction of new products will lead to customer retention.					
4.	Training of employees will increase customer retention.					
5.	Customer feedback and follow ups will lead to customer retention.					
6.	Effective communication leads to customer retention.					
7.	Level of customer involvement increases customer retention.					
8.	Customer trust increases customer retention.					