JGB 1530
Life Insurance Industry: Exploring the Different Factors Affecting Word-of-Mouth and Persistency among Policy holders from the Perspective of Agents

Gabriel Eli J. Bilon & Janine Veronica E. Saplagio
De La Salle University, Manila
Gabriel_Bilon@dlsu.edu.ph
Janine_Saplagio@dlsu.edu.ph

Abstract

One of the most common ways of mitigating financial risks is by purchasing a life insurance policy. However, the advantages of maintaining a life insurance plan are greatly affected by customer satisfaction and word-of-mouth and are measured by policy renewals per year, also known as Persistency. This paper sought to explore the different factors affecting word-of-mouth and Persistency among policyholders from the perspective of life insurance agents and financial advisors using a model based on the framework used in astudy by Leon and Choi (2020), the Conceptual Research Model Moderated by Choice. The participants in this study consisted of the Pinoy Insurance Talks (P. I. T.) Facebook group members. A total of 264 life insurance agents (192 females, 71 males, one non-binary) aged 19 to 65 years old took part in the study. The reliability of the responses was examined by obtaining Cronbach Alpha values, which range from 0.769 to 0.947. Using SmartPLS, the path coefficient for each construct was calculated. Results showed that there is significant interrelation among the following variables: (a) Plan Satisfaction (PLS) towards Provider Satisfaction (PRS), Persistency (PER), and Word-of-Mouth (WOM); (b) Provider Satisfaction (PRS) towards Word-of-Mouth (WOM); and (c) Plan Value (PV) towards Plan Satisfaction and Provider Satisfaction (PRS).

On the other hand, Interaction (INT) appeared to have a nil relevance on Provider Satisfaction (PRS), same with Provider Satisfaction (PRS) towards Persistency (PER), including Service Quality (SQ) towards Provider Satisfaction (PRS). Based on findings, the authors, therefore, recommend for insurance companies to consider the plan, brand credibility, and product suitability when developing campaigns or initiatives interconnected with word-of-mouth and Persistency to achieve customer satisfaction. Life insurance agents are also encouraged to emphasize ensuring that the plan they are offering matches the needs of their customers.

__Keywords:__ Customer satisfaction, word-of-mouth, Persistency, life insurance agents,financial advisor

Introduction

One of the most common ways of mitigating financial risks is by purchasing a life insurance policy. According to Jones and Silver (2011), policyholders get to enjoy assurance and freedom from worry as it minimizes the financial risks caused by damage in properties, problems in health, or loss of life of the insured.

The life insurance industry as a whole has many growth opportunities. According to the Insurance Commission (2020), the first introduced insurance company in the Philippines during the late 1890s. To date, there are a total of 32 companies that offer life insurance in the country. While it is evident that the industry is already established, most Filipinos still do not have insurance protection. Based on the report published by the Philippine Life Insurance Association or PLIA (2017), out of 103 million Filipinos in 2016, only 46.32% are insured. Despite the accessibility and affordability of life insurance in the country, it is evident that there is a misconception about the topic of insurance that needs to be addressed. The lack of appreciation for the value of having an insurance policy exposes more than half of the population to financial risks, and the government and private sectors need to find innovative solutions to address this issue.

There are many ways of buying an insurance policy. The agency model is one of the most used business models by insurance companies. According to Jones and Silver (2011), insurance agents, also known as financial advisors, are trained and certified by companies. Financial advisors create groups called agencies wherein they plan on how to reach their target customers. On the other hand, the bancassurance model is another model wherein a joint venture between an insurance company and a local bank is made. In this model, an insurance company sells insurance through the bank affiliate. Dua, Namita, and Deol (2019) explained that the bancassurance model's benefits are extensive. The broad network of banks provides insurance companies access to their target market. Moreover, the customers' trust in the partner bank somehow mirrors their positioning to the insurance company.

As the COVID-19 pandemic hit the Philippines, different risk mitigation plans were carried out. Lockdown and travel restrictions were implemented (Tria, 2020), which in turn put forward limitations and difficulties among businesses that are heavily reliant on face-to-face dealings and require foot traffic.

Even before the pandemic, the insurance industry has been trying to adapt to the digital evolution. More so, bancassurance corporations strengthened the selling of insurances through online platforms. The shift to digital selling gives opportunities for sales growth and accessibility of products and services to customers (Marzai, 2018).

Apart from making the insurance available online, companies also created more affordable plans to ensure that customers purchase. For instance, term insurance covers an individual for a specified duration of 1 year to 5 years or more. This type can be bought at less than Php 500 per month, enabling the minimum wage earners to enjoy the benefits of having insurance coverage (Camat, 2019).

Although there have been various options for consumers, most Filipinos still do not have insurance policies. The negative connotation of having a life insurance policy as a financial liability instead of a health and life gain is still being challenged. However, concepts are taken into account to examine its effectiveness among policyholders — customer satisfaction and word-of-mouth in life insurance.

Framework
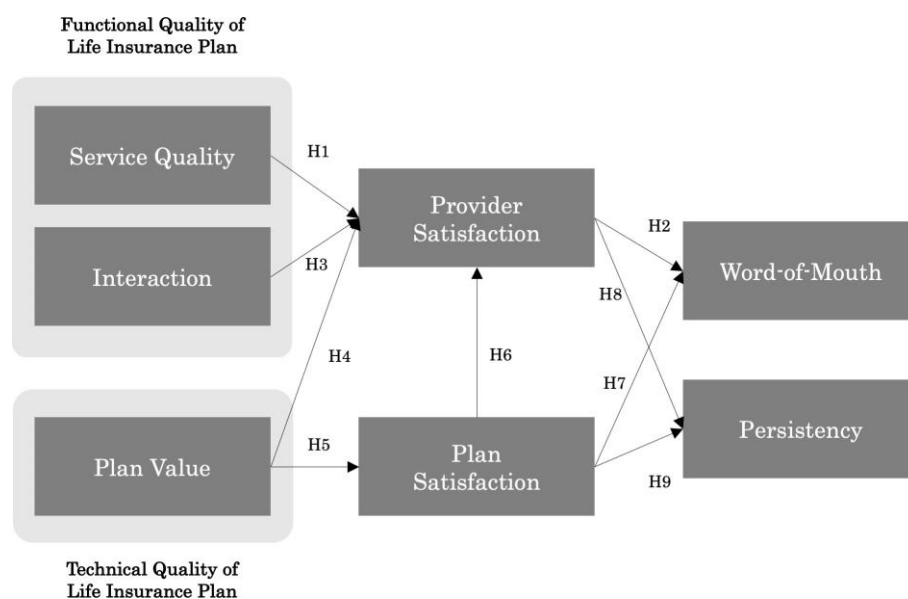
The authors intend to leverage this paper's theoretical and conceptual framework based on the study done by Leon and Choi (2020), "Satisfaction and word-of-mouth moderated by choice: a service industry perspective." The said study mainly focuses on the interrelation of the following constructs: (1) Service Quality and (2) Interaction which both belong to the functional quality of life insurance plan, (3) Plan Value; (4) Provider Satisfaction; (5) Plan Satisfaction; and (6) Word-of-Mouth.

However, since the authors' objective is to examine the relationship among customer satisfaction, word-of-mouth, and Persistency of policies, the list of constructs from the anchor study will be modified from health insurance to life insurance, and Persistency has been added.

Customer retention plays an essential role in the sustainability of life insurance companies. Premium payments from customers who chose to keep their policy active provide continuous profit to the insurance provider. According to Kagan (2020), once profits are realized from the premiums, it is considered a source of income for an insurance company. Companies measure renewal premiums in terms of policy persistency. Persistency or persistency ratio is a metric that measures the rate of policy renewals per year and is measured either by a number of active policies and collected premium payments ("Term of the day: Insurance persistency ratio," 2018). According to an article by Verma et al. (2013), aside from external factors, lack of customer needs analysis and proper communication with the policyholders also affect Persistency. Both of these contribute to provider satisfaction and plan Satisfaction, respectively.

In addition, as mentioned in an article by Aureus Analytics (n.d.), various factors such as poor selling practices, service level issues, and product design. These affect both customer satisfaction towards their plan and the insurance provider.

Each construct is defined in order to understand the relationship among each of them better:

Service Quality (SQ), as defined by Asubonteng et al. (1996), is the "difference between customers' expectations for service performed before the service encounter and their perceptions of the service received."

Interaction (INT) is how the brand and anything related to it communicates and affects the policyholder, such as politeness, respect, and paying attention to the customers' needs aspects (Leon & Choi, 2020).

Plan Value (PV) measures the customer's perception of whether the plan is reasonable in terms of pricing and other monetary specifics (Leon & Choi, 2020).

Provider Satisfaction (PRS) measures the customers' contentment with the provider's services in terms of catering to their needs (Leon & Choi, 2020).

Plan Satisfaction (PLS) measures the customers' perception of their overall satisfaction with the type of plan they bought, the suitability of the plan features concerning their needs, and whether the purchase is considered a wise decision (Leon & Choi, 2020).

Word-of-mouth (WOM) is also known as the exchange of information between customers and is perceived by marketers as a form of essential and reliable marketing information (Kundu & Rajan, 2016).

Persistency or persistency ratio is a metric that measures the rate of policy renewals per year and is measured either by several active policies and collected premium payments ("Term of the day: Insurance persistency ratio," 2018).

Methodology

Participants

The participants in this study are life insurance agents and financial advisors who are members of the Pinoy Insurance Talk (P. I. T.) Facebook group. Duplicates and incomplete survey responses were removed from the data set. A total of 264 valid responses from insurance agents were analyzed, wherein 192 (72.73%) identified themselves as females, 71 (26.89%) are males, and 1 (0.38%) is non-binary.

Instruments

The authors created a 5-point Likert scale online survey-based to measure the relationship among the different factors of customer satisfaction, word-of-mouth, and Persistency.

The constructs were based on the conceptual framework used by Leon and Choi (2020), wherein Service Quality (SQ), Interaction (INT), and Plan Value (PV) affect Provider Satisfaction (PRS), and Plan Satisfaction (PLS) is influenced by Plan Value (PV). The constructs Provider Satisfaction (PRS) and Plan Satisfaction (PLS) are affecting.

Word-of-Mouth (WOM). In this study, the relationships between Persistency (PER), and Provider Satisfaction (PRS), and Plan Satisfaction (PLS) are also being examined.

The research instrument consists of 4 to 5 statements per construct. The respondents rated each statement using the 5-point Likert agreement scale wherein one corresponds to Strongly Disagree, while five represents Strongly Agree. The statements for the indicators of each construct are structured consistently to lessen the errors in analyzing the data and minimize the risk of potential confusion from respondents.

Procedures

The study's authors followed the recommended format of the consent for data collection set by the DLSU Research Ethics Office (REO) to ensure data privacy. In addition, no personally identifiable data were collected from the respondents to maintain the anonymity of the responses.

The recipients of the survey are members of the Pinoy Insurance Talk (P. I. T.) Facebook group. During the survey, the P. I. T Facebook group members were about 89,000. For the study, the target sample size is at least 262, based on a 6.05% margin of error and a 95% confidence level. These are based on the results computed using Raosoft Sample Size Calculator (Raosoft, 2004).The invalid, incomplete, and logged responses outside the duration of the surveywere not included in the analysis.

Data Analysis

The demographics of the respondents were examined to determine the segment with the most representation on the data collected. To further analyze the profile of the segments, cross-tabulation between gender and age bracket, gender and premium amount per month, and age bracket and premium amount per month were conducted.

To test the reliability of the collected data, the Cronbach's alpha analysis was done for each of the constructs in both pre-test data and survey responses. According to Chin (2010), as cited in the article by Leon and Choi (2020), if the Cronbach's alpha values are higher than the threshold of 0.7, it can be inferred that reliability is evident.

Various tests were conducted on the data to check the responses' normality further and test the hypothesis. Kurtosis and skewness of the data for each construct were derived using descriptive statistics. The path coefficient analysis was conducted using SmartPLS.

Discussion of Results

The profiles of the respondents were taken into account. The majority of the responses were from female agents (72.73%), way above the male (26.89%), and non-binary respondents at (0.38%).

Since the majority of the responses are from females, the study's recommendations may be leaning towards the perspective of female life insurance agents.

The majority of the responses are from agents within the age bracket of 26 to 31 (30%)and 32 to 37 years old (28%). Most of the participants belong to the Millennials age

group based on Kasasa's (2021) article.

To add, almost half of the respondents have a policy with a premium per month amounting to Php 5,000 and above (48.48%). Respondents follow this with a policy with a premium per month ranging from Php 2,000 to Php 4,999 (39.39%). This may be due to various factors, including the insured's age and cost of insurance since the higher the age of an individual, the higher their premium is, as mentioned in an article by Future Generali (2018).

Using cross-tabulation of demographics of the respondents, it is evident that in terms of gender and age bracket, most of the responses are from females with age bracket of 32 to 37, closely followed by females within 26 to 31 years old. In terms of the age bracket of the respondents and their premium per month, most of them are 26 to 31 and 32 to 37 years old, with a premium per month of Php 2,000 to Php 4,999. In addition, the majority of the respondents are females with a premium per month ranging from Php 2,000 to Php 4,999 and Php 5,000 and above.

To check the reliability of the responses for each identifier of the construct, Cronbach alpha reliability analysis was conducted. All are within the recommended threshold of values greater than 0.7, ranging from 0.769 for Persistency (PER) and 0.947 for Service Quality (SQ). According to Complete Dissertation by Statistics Solutions (2020), the acceptable value is at least 0.7.

Tests were conducted on the data to check the normality of the responses further and test the hypothesis. Kurtosis and skewness of the data for each construct were derived using descriptive statistics. The path coefficient analysis was conducted using SmartPLS.

Looking at the kurtosis and skewness of the responses, it is evident that all data for the identifiers of the constructs are leptokurtic and have large outliers except for PV5, wherein the respondents were asked if it is easy for their customers to keep their policy active. In addition, all identifiers of the constructs have a negative skew. This indicates that the left tail is longer and the mass of the distribution is concentrated on the right; since the participants are agents, they may better understand the value of life insurance.

The study explores the different factors affecting word-of-mouth andPersistency among policyholders from the perspective of life insurance agents and financial advisors using a model based on the framework used in a study by Leon and Choi (2020), theConceptual Research Model Moderated by Choice.

	O	M	STDEV	P Values
INT -> PRS	0.10	0.10	0.08	0.24
PLS -> PER	0.43	0.44	0.10	0.00
PLS -> PRS	0.45	0.46	0.12	0.00
PLS -> WOM	0.24	0.24	0.10	0.02
PRS -> PER	0.21	0.19	0.11	0.06
PRS -> WOM	0.55	0.55	0.10	0.00
PV -> PLS	0.77	0.78	0.04	0.00
PV -> PRS	0.29	0.28	0.10	0.00
SQ -> PRS	0.06	0.06	0.08	0.43

Note: O = Original Sample; M = Sample Mean; STDEV = Standard Deviation

Results showed that there is a significant relationship among the following variables: (a) Plan Satisfaction (PLS) towards Provider Satisfaction (PRS), Persistency (PER), and Word-of-Mouth (WOM); (b) Provider Satisfaction (PRS) towards Word-of-Mouth (WOM); and (c) Plan Value (PV) towards Plan Satisfaction and Provider Satisfaction (PRS). On the other hand, Interaction (INT) appeared to have a nil relevance on Provider Satisfaction (PRS), same with Provider Satisfaction (PRS) towards Persistency (PER), including Service Quality (SQ) towards Provider Satisfaction (PRS).

Conclusions

Based on findings, the authors, therefore, recommend for insurance companies to consider the plan, brand credibility, and product suitability when developing campaigns or initiatives interconnected with word-of-mouth and Persistency to achieve customer satisfaction. Life insurance agents are also encouraged to emphasize ensuring that the plan they are offering matches the needs of their customers.

Persistency is measured and derived from the renewal premiums of policies collected from the policyholders. An article by Term of the Day: Insurance Persistency Ratio (2018) states that it is either measured by a number of active policies or collected premium payments. A study shows that customer retention is affected by the features of the product or plan that a customer has bought. According to Staudt and Wagner (2018), features of a plan or policy significantly affect customer development and retention. If the benefits of the insurance plan are irrelevant to the customer, it may negatively influence the intent of the policyholder to keep the policy.

Based on the path coefficient analysis conducted, results show that plan satisfaction also positively affects customers' satisfaction with the insurance provider. Customerswho are satisfied with their plan tend to be satisfied with the provider as well. According to Poufinas and Zygiotis (2017), policyholders develop a sense of trust towards the insurance provider if the product or plan, including its levels of growth and potentiallosses, are appropriately communicated and disclosed to customers.

On the other hand, the results of the path coefficient analysis showed that based on the data gathered in the survey, provider satisfaction and Persistency do not have a direct or significant relationship. According to Rambocas and Arjoon's (2019) study, a customer's satisfaction towards a service provider is more associated with brand equity and service or transaction satisfaction. This may imply that brand image alone is not sufficient to encourage customer retention.

Word-of-mouth is one of the most effective ways of promoting a brand as this is a form of exchange of information, may it be a positive or negative experience about a brand, making it a reliable source of marketing information (Kundu & Rajan, 2016). Since transparency and clarity of the features of the plan influence customers' satisfaction about their insurance plan, it also plays an essential role in word-of-mouth. According to Nhi, Thong, and Linh (2018), reliability, interpersonal skills, and technology are drivers of customer word-of-mouth.

According to Leon and Choi (2020), plan value can be measured through the perception of whether the customer finds the plan reasonable in terms of pricing and other monetary-related features of the product. The path coefficient analysis implies that customers will most likely be satisfied with the plan itself and the life insurance provider if the policyholder finds value in the purchased plan.

Results of the path coefficient analysis also show no significant relationship between service quality and provider satisfaction. This may be due to the differences in customers' definition of quality of service. According to Saha, Dutta, and Choudhury (2019), a wide range of customers' perceptions of quality service and expectations may result in customer dissatisfaction.

Limitations and Recommendations for Future Research

Based on the survey results, it can be inferred that from the perspective of life insurance agents, customers' interaction with the insurance provider through various customer touchpoints may not be related to provider satisfaction. This is in contrast to an article by Van Tonder and Petzer (2018), wherein they stated that customer engagement with the different touchpoints connects relationship marketing and customer satisfaction.

On the other hand, Verma et al. (2013) stated that interaction and service quality are essential in customer satisfaction and persistency management. Customers must be well-informed about the benefits of their policies and how it matches their needs. After-sales servicing is also vital in maintaining the relationship between the policyholder and the insurance provider and managing Persistency.

Based on the results of the data analysis, it is also recommended for marketing managers to develop campaigns and communication materials that help customers further realize the benefits of their policy to drive plan satisfaction as this has a direct relationship with Persistency.

Furthermore, insurance companies may reinforce to consumers and existing policyholders the importance of being covered with a life insurance policy, especially during the pandemic. As supported by Adams (2014), customers are inclined to be empowered, informed, and reasonable in their spending even pre-pandemic period; more so, the willingness to spend varies on how essential the need is. Moreover, with the increase in

COVID-19 cases, having an insurance policy is an excellent way to manage the financial risks the pandemic entails.

The scope of the study has been limited to life insurance agents and financial advisors due to restrictions brought by data security and data privacy of the policyholders' information. In line with this, since the research highlights customer satisfaction through the point of view of life insurance agents, future studies may use the customers' perspective directly when able to strengthen insurance companies' products and services further.

Therefore, the authors of the study recommend that as an opportunity for future research, this study can be done to a specific company or insurance provider for a more customer-centric insight.

Specific studies on other life insurance groups on digital platforms can also be explored since participants of the current study came from a specific Facebook group. Viber community and other similar social media groups can also be studied.

References

Adams, A. (2014). The new normal of consumer behavior and how to respond. Quirk'sMedia. https://www.quirks.com/articles/the-new-normal-of-consumer-behavior-and-how-to-r respond

Asubonteng, P., McCleary, K. J., & Swan, J. E. (1996). Servqual revisited: A critical reviewof service quality. *Journal of Services Marketing, 10*(6), 62-81. https://doi.org/10.1108/08876049610148602

Aureus Analytics. (n.d.). *Factors impacting retention.* Aureus Analytics. https://blog.aureusanalytics.com/blog/factors-impacting-persistency

Barakaat Consulting. (2020, September 4). *Sun Life Financial SWOT & PESTLE analysis.* SWOT & PESTLE. https://www.swotandpestle.com/sun-life-financial/

Barakaat Consulting. (2020, September 4). *AXA SWOT & PESTLE analysis.* SWOT & PESTLE. https://www.swotandpestle.com/axa/

BPI-Philam Life Assurance Corp. (2020). *BPI-Philam 2019 Annual Report - Trailblazers in Protection.* BPI-Philam. https://www.bpi-philam.com/content/dam/bplac/en/docs/corporate-governance/2019/source-documents/bplac-2019-annual-report.pdf

Camat, R. (2019, September 6). *Best and cheapest term insurance plans in the Philippines.* MoneyTalkPH. https://www.moneytalkph.com/

Complete Dissertation by Statistics Solutions. (2021, June 22). *Cronbach's Alpha.* Statistics Solutions. https://www.statisticssolutions.com/cronbachs-alpha/

Dua, P., Sahay, N., & Deol, O. (2019). Bancassurance model and its impact on financial inclusion: Review and analysis. 661. *International Journal of Management, 10*(6). https://doi.org/10.34218/ijm.10.6.2019.027

Fern Fort University. (n.d.). Manulife Financial Corporation PESTEL / PEST & environment analysis [Strategy]. Fern Fort University https://fernfortuniversity.com/term-papers/pestel/nyse4/1019-manulife-financial-corp oration.php

Insurance Commission. (2020). *Premium Income of Life Insurance Companies Year 2019.* https://www.insurance.gov.ph/wp-content/uploads/2021/01/Premium-Income-of-Life-Insurance-Companies-Year-2019.pdf

Jones H. & Silver S. (2011). *Principles of insurance.* Georgia: LL Global Inc. (pp. 21-24) Kagan, J. (2020, August 19). *How insurance premiums work.* Investopedia.

https://www.investopedia.com/terms/i/insurance-premium.asp

Kasasa. (2021, January 13). *Boomers, Gen X, Gen Y, and Gen Z explained.* Kasasa. https://www.kasasa.com/articles/generations/gen-x-gen-y-gen-z

Kundu, S., & Rajan, C. S. (2016). *Word of mouth: A literature review.* SSRN ElectronicJournal. https://doi.org/10.2139/ssrn.2973022

Leon, S. and Choi, H. (2020), satisfaction and word-of-mouth moderated by choice: a service industry perspective. *Journal of Consumer Marketing, Vol. 37* No. 7, pp. 869-881. https://doi-org.dlsu.idm.oclc.org/10.1108/JCM-08-2019-3369

Manulife. (n.d.). *Our story.* Insurance Site. https://www.manulife.com.ph/en/individual/about-us/our-story.html

Marzai, E. (2018). Bancassurance in a Digital Era. *Proceedings of the InternationalConference on Business Excellence, 12*(1), 601-611. https://doi.org/10.2478/picbe-2018-0054

Nhi, N. X., Thong, B. Q., Khuong, M. N., & Linh, L. T. (2018). Factors affecting organization customer word of mouth towards B2B professional general insurance services in Vietnam. *Journal of Economics, Business and Management, 6*(3), 105-112. https://doi.org/10.18178/joebm.2018.6.3.558

Philippine Life Insurance Association. (2017). 2016 Industry Performance Report as ofQuarter Ending 31 December 2016. Retrieved from https://www.plia.org.ph/wp-content/uploads/2017/07/2016-Industry-Performance-Rep ort.pdf

Poufinas, T., & Zygiotis, D. (2017). How transparency affects investment-linked insurance products. International Advances in Economic Research, 23(4), 405-418. doi:http://dx.doi.org.dlsu.idm.oclc.org/10.1007/s11294-017-9661-9

Pru Life UK. (n.d.). *Life, investment-linked, and health insurance.* Life, Investment-linked,And Health Insurance | Pru Life UK. https://www.prulifeuk.com.ph/en/

Rambocas, M., & Arjoon, S. (2019). Brand equity in Caribbean financial services: The moderating role of service providers. *International Journal of Bank Marketing, 38*(3), 642-670. https://doi.org/10.1108/ijbm-05-2019-0167

Raosoft. (2004). *Sample size calculator by Raosoft, Inc.* Web survey software, online surveys, email surveys from Raosoft, Inc. https://www.raosoft.com/samplesize.html

Ringle, C. Wende, S. and Becker, J.-M. (2015), SmartPLS 3. *Seven reasons for the cause of higher life insurance premium - Future Generali life insurance.* (2018, July 6). Future Generali India Life Insurance - Trust and Growth!. https://life.futuregenerali.in/life-insurance-made-simple/life-insurance/7-reasons-why- you-have-to-pay-higher-premium-for-life-insurance-than-others

Staudt, Y., & Wagner, J. (2018). What policyholder and contract features determine the evolution of non-life insurance customer relationships? *International Journal of Bank Marketing, 36*(6), 1098-1124. https://doi.org/10.1108/ijbm-11-2016-0175

Sun Life Philippines. *(n.d.). About us. https://www.sunlife.com.ph/en/about-us/*Term of the day: Insurance persistency ratio. (2018, May 21). Mint. https://search-proquest-com.dlsu.idm.oclc.org/newspapers/term-day-insurance-persist ency-ratio/docview/2041628306/se-2? accountid=190474

Ting, H., Ling, J., & Chua, J. H. (2020, May 1). *(PDF) Editorial: It will go away!? Pandemic crisis and business in Asia.* ResearchGate. https://www.researchgate.net/publication/341087044_Editorial_It_Will_Go_Away_Pa ndemic_Crisis_and_Business_in_Asia

Tria, J. (2020, June 3). *The COVID-19 pandemic through the lens of education in the Philippines: The new normal.* ResearchGate. https://www.researchgate.net/publication/341981898_The_COVID-19_Pandemic_thr ough_the_Lens_of_Education_in_the_Philippines_The_New_Normal

Van Tonder, E., & Petzer, D. J. (2018). The interrelationships between relationship marketing constructs and customer engagement dimensions. *The Service Industries Journal, 38*(13-14), 948-973. https://doi.org/10.1080/02642069.2018.1425398

Verma, S., Deel, L. V., & Nadimpalli, R. (2013). *Persistency Management Framework for Life Insurance.* Capgemini - Get The Future You Want. https://www.capgemini.com/br-pt/wp-content/uploads/sites/8/2017/07/persistency_ma nagement_framework_for_life_insurance.pdf