

Customer Relationship Management and Customer Retention: Empirical Assessment from Nigeria's Insurance Industry

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Abstract

Aims: The purpose of this study was to draw the attention of insurance practitioners in Nigeria to interrelationships that exist among CRM, customer retention and value creation. For this purpose, researchers have evaluated the relationship that exist between CRM and customer retention; and also ascertained if value creation was in any way extended to insuring populace in Nigeria.

Study design: The study employed cross-sectional survey design

Place and duration of study: Study was conducted in Lagos metropolis. Duration of study was from October, 2012 to February, 2013.

Methodology: The research was started with literature survey. The study employed stratified random sampling technique and thus, gathered data through the use of structured questionnaire. The sample population consisted of 58 respondents made up of marketing managers and underwriting managers drawn from 35 insurance companies which were randomly selected from the directory of member companies. The statistical instruments employed for this study were Simple linear regression and Kolmogorov-smirnov test. Two hypotheses were tested in this study.

Results: The study found that CRM positively influences customer retention in the Nigeria's Insurance Industry, and thus helps create values for insuring populace in Nigeria.

Conclusion: The study evidenced interlink between various constructs understudied.

Keywords: Customer relationship management; Customer retention; Value creation; Insurance industry; Assessment; Nigeria

Introduction

The restructuring exercises done, overtime, in the insurance sub-sector of the Nigeria's economy had made the industry so dynamic despite the lingering market forces peculiar to the Nigeria's business environment such as change in consumer taste, technological change, demographic variation, political and economic instability and the likes. All these forces had been described as drivers of globalization [1]. There is need for practitioners of insurance in Nigeria to continually look in the way of relationship management of their customers, retaining those they are able to convince, acquire and satisfy profitably and then create values that meet up with the vision, mission and integrity of their organization and most of all, expectations of their numerous customers. According to Pop and Petrescu [2], success will usually flow towards viable financially-sound companies who understand how to get and keep their client's trust employing flexible pricing policies, diversified products and excellent customer service.

Insurance industries in most emerging markets are characterized by poor perception, low level of technology leverage, low investment and asset management capabilities, and poor regulatory framework [3]. However, the Nigeria's insurance industry has demonstrated the ability to survive in the face of enormous challenges. Previous studies of experts in the field of insurance in Nigeria had thus criticized the industry for poor image [4,5]; lack of trust and poor communication system [6-8]; low patronage [9]; dearth of human capital and professional skills [10]; low market penetration [11]; gross under-utilization of capital [12]; yet the industry is about the highest capitalized in Africa [13].

Nigeria, according to 2006 census, has been reported to an estimated population of 140 million people with an estimated non-life & life insurance income receipt of \$ 787 million and \$ 147 million respectively

in 2009; and low level of insurance penetration of mere 0.6% [14]. This sector was said to recorded a significant progress with the successful recapitalization in 2007 which brought the industry capacity to 49 with a premium income written little above ₦ 200 billion in a country of over 160 million people as against an industry shareholders' funds of about ₦ 347 billion [12]. It has therefore shown that the Nigerian insurance sector is supported by obvious demographic advantages and Nigeria's economic growth prospects, relative to other emerging markets. However, the contraction in the number of companies (down from 104 in 2006, prior to the consolidation in the industry) has brought about improved capacity even in the ability of these companies to settle larger claims.

More so, Nigeria's insurance market is dominated by non-life segment, driven by mandatory third-party motor insurance. The growth in motor insurance premium (especially third party policies) has also been fueled by the speedily emerging middle class in Nigeria as private cars are fast becoming a necessity rather than luxury [13]. NAICOM, in 2008, came up with the introduction of the Market Development and Restructuring Initiative (MDRI), a medium term reform plan intended to cover from 2009 to 2012, aimed at improving

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capacity of the industry, market efficiency and protection of consumers in the country. The principal target of the reform plan is to implement mandatory insurance covering six areas, which include, Motor Third Party insurance, Employers Liability insurance, Occupiers Liability insurance, Group Life insurance Buildings under construction, Healthcare Professional and Indemnity insurance. Also, compulsory insurance is being a primary tool for enhancing the penetration rate in the industry.

Customer relationship management (CRM) is being one of the leading modern business and market strategy employed in high competing business environment. More so, understanding the changing needs and expectations of customers and ensuring retention of such customers should primarily be the concern of business managers. Understanding customers' profitability and retaining profitable customers had been recognized as one of the core value of customer relationship management [15]. Therefore, maximizing profitability of the total customer relationship over a period of time tends to ensure increased profit for any organization as many companies had tapped into the use, measure and reliability of customer value in their activities [16,17]; because customer value is a key element of CRM performance measure [18]. The study is aimed at ascertaining relationship that subsists between CRM and customer retention and thus, finds out if CRM helps create values for insuring populace in Nigeria. This paper is divided into five sections. Having concluded with the introductory aspect above, the rest of the paper is structured in the following regards: theoretical and empirical framework, methodology, results and discussion, and conclusion.

Theoretical and empirical framework

Many studies in the past have shown interrelationship among Customer Relationship Management (CRM), customer retention and value creation. However, this study further investigates the relationships and usefulness of these constructs with its assessment from the Nigeria's insurance market. To mention few, previous studies had interlinked constructs under study with insurance industry [19-22]. It is worthy to note that CRM has been described in a number of ways; and it means different things to different caliber of people depending on the working arena it's being used in [23]. Importantly, CRM has been noted to be the most viable means to promote the development and expansion of customers' base which, consequently, will assist the enhancement of profitability and invite loyalty [24-26].

Customer relationship management (CRM) is a philosophy within the managerial arena that seeks to create lasting relationship with customer. CRM is being described as a strategic method which is concerned with creating enhanced shareholder value via the evolvment of suitable alignments with key customers and customer segments [27]. According to Richards and Jones [28], CRM is a set of business activities supported by the alignment of both technology and process directed by strategy and designed to enhance firm performance in an area of customer management. Thus, successful customer relationship management aims at fathoming the desires and needs of the customers and is accomplished by the integration of these desires with the organization's strategy, technology, people and enterprise process [21].

The study of Al-Khouri [29] suggested key common components of CRM framework. The dimensions of which are: key customers focus, knowledge management, CRM organizations, and technology-based CRM [30-32]. However, previous studies had also shown that CRM improves financial efficiency of marketing effort and pricing

[33,34]; improves product differentiation, customer commitment, satisfaction and loyalty [35,36]; enhances long-term profitability [37]; enables knowledge management [38]; enhances customer acquisition, development, retention and decision making [39,40]; and brings about increased firm performance [32,41,42].

A report has shown that many insurers have not completely harness their customer data and optimize customer relationships [43]. To enforce a strategy towards customer management, insurers have to be ready to invest in modern technology to assist them: understand the customer and their behaviour; put customers to identify groups with similarities that can be aimed jointly; assign values to segmented customer, predict behaviour of customers and implement techniques that accomplish satisfaction and retention of customers; and identify and maximize cross-sell and up-sell opportunities to increase sales. Most insurance companies are set up for new customer acquisition. However, recent study argued that customer retention plays a bigger role in profitability [44]. According to the Database Marketing Institute, every \$ 1 paid toward customer retention escalates profits more than every \$ 5 spent on acquiring new customer.

Customer retention is extremely vital for business to remain competitive. It has recently become more significant compared to customer acquisition. According to research conducted by Maxham [45], customer retention had been measured by four dimensions, that is, overall firm satisfaction; positive words of mouth; repeat purchase intentions; and loyalty to the firm. In a recent study by Lin and Wu [46], it has been proved that there exists a statistically significant relationship between quality commitment, trust and satisfaction and customer retention and future use of product. In an earlier study, it has been found that trust and commitment lead directly to cooperative behaviour that are conducive to relationship marketing success; and important in the establishment and maintenance of long term relationships with customers [22].

Customer retention is the strategic objective of striving to maintain long term relationships with customers. Customer retention is the mirror image of customer defection. A high retention rate is equivalent to a low defection rate. However, customer retention is not a new concept among insurers, but today's market demands a novel approach to building and maintaining loyalty. An effective Customer Retention (CR) strategy not only retains the customer but promotes the sales of additional products to that customer as needs arise. Four proactive elements as suggested by Navigant financial services are at the core of a successful program [47]. These are: target & tailor (get to know your client's behaviours and priorities); enhance customer experience (align deliverables with customer requirements); embed retention (integrate retention in the organization's customer service policies); and engage employees (instill in employees that sense that they own the client relationship). A practical study in UAE has shown that 46% of those who changed providers feel that their former insurer did not make any effort to prevent them from switching. Data also show that 56% of respondents in the UAE believe that insurance companies do not adequately reward loyalty [48].

Some studies in the past had identified the benefits that customer retention delivers to an organization and thus, noted that the longer a customer stays with an organization, the more satisfaction than seeking new customers [49,50]. In recent study, many factors had been noted to affect the loyalty of customers and the period that customers remain with the organization; amongst these factors are: higher initial costs of finding and attracting new customers, positive word of mouth promotion, increases in both the value and number of purchases, the

customer concrete understanding of the organization, to mention few [51].

Creating customer value creation has been a vital source of competitive advantage. However, the process of value creation is a key component of CRM as it transforms firm and customer strategies into specific statements of what value is to render to customers, and consequently what value is to render to the supplier organization. The value creation process has three essential components [52], which are: ascertaining what value the company can render to its customers (the 'value customer receives'); ascertaining the value the organization gets from its customers (the 'value organization receives'); and maximizing the lifetime value of desirable customer segments. To the customers, the concern is value proposition and assessment; while the concern is economics of customer acquisition and retention to the organization.

Value is the customer's estimate of the extent to which a product or service can satisfy their needs. It is also the worth of a specific action or object relative to an individual's needs at a particular time [53]. However, there are normally costs associated with the derivation of benefits such that a general model of value would identify the worth of the worth of the benefits received for the price paid [54]. Therefore, value is relative to customer expectations and experience of competitive offerings within a category and can be derived from sources other than products, such as the relationships between buyers and sellers [55]. With the study of Ryssel et al. [56], trust has been recognized as having a vital impact value creation and concludes that value creation is a function of the atmosphere of a relationship rather than the technology employed.

While the creation of customer value is being based on three principles, which are: (i) customers will choose between alternative offerings and select the one that (they perceive) will offer them the best value, (ii) customers do not want product or service features, they want their needs met, (iii) it is more profitable to have a lasting relationship between a customer and a company rather than a one-off transaction; creation of value was argued to be dependent upon firm's ability to render high performance on the benefits that are crucial to the customer and this in turn is rooted in their technological competence and business process, or core competences [57,58].

Methodology

The research design employed in this study was a cross-sectional survey design. The use of survey design is justified because it has its advantages of predicting behavior [59]; and thus, identifying attributes of a large population from a small group of individuals, the economy of the design and the rapid approach in collection of data [60,61]. The data were collected through the survey among insurance companies in Nigeria. The major instrument employed in gathering data was a structured questionnaire. The use of structured questionnaire was because of its appropriateness to survey research [62]. The questionnaire consisted of two parts, part A and B. While part A consisted of personal data of respondents, part B contained statement related to constructs understudied. Respondents' view of the issues under study was assisted via the completion of the questionnaire which was drawn using a Likert-type scaling measurement of 'Agree', 'Indifferent' and 'Not agree'.

Among 62 members of the Nigeria's insurance companies operating presently in Nigeria, consisting of 34 specialist general insurance companies, 18 specialist life insurance companies, 08 composite insurance companies and 02 reinsurance companies [63]; 35 companies were chosen at random according to their rank in order

of gross premium and market share capabilities (that is, top 35 member companies as document by the Nigerian Insurers Association), giving a 57% of the industry capacity. The sample population, therefore, was drawn from Lagos, the commercial base of Nigeria, which houses the largest number of insurance companies in Nigeria. A total of 70 copies of the questionnaire were sent. 2 copies of the questionnaire (meant for Marketing manager and Underwriting manager, respectively) accompanied by a covering letter. The choice of the sampling units was informed by the peculiarity of the technical nature of insurance services in Nigeria. To ensure the genuineness of responses, regular telephone calls and visits were options in order for clarification purposes and to facilitate prompt filling, handling and returning of the questionnaire. Eventually, among 66 copies retrieved, 58 were correctly completed and these were analyzed for this research (that is, a 83% effective response rate).

On the reliability and validity of the study, a pilot study was thus carried out to test the reliability of measures. The Cronbach alpha on questionnaire administration is 0.801; which shows that the alpha level is above the required 0.70. On the validity of the study, both theoretical and content validity were explored. The theoretical validity was sought for by developing the measures of the constructs under study from well-grounded and extant literature from other previous studies. The content validity was established by giving a set of the draft questionnaire to few selected insurance companies' executives and members of the academia in the field of management and insurance. These experts went through the items on the instrument and made necessary suggestions which enable the researchers to present the items within the linguistic understanding of the respondents.

Test of hypotheses

The researchers formulated 2 hypotheses that serve to provide a clear direction for the conduct of this research and these were tested. A hypothesis test is a statistical method that uses sample data to evaluate a hypothesis about a population parameter [64]. The hypotheses testing techniques used were simple regression for testing hypothesis 1 and kolmogorov-smirnov test for testing hypothesis 2. A linear regression is simple if it involves only two variables Y (dependent variable) and only one independent variable X, where $Y=f(X)$ and where Y= customer retention, X= CRM.

The simple regression establishes whether or not any relationships exist between the two variables Y and X [65]. The Statistical Package for Social Sciences (SPSS) aided the test of hypothesis 1. The Kolmogorov-Smirnov test is appropriate because it is a non parametric tool used to test the goodness of fit of an ordinal data and calls for a comparison of an observed sample distribution with a theoretical distribution [66]. The test focuses on the largest value of the deviation among observed and theoretical proportions. The kolmogorov-smirnov is given as:

$$D = \max |F_o(X) - S_n(X)|$$

Where F is the number of observations; $F_o(X)$ is the specified (or theoretical) cumulative frequency distribution under H_0 for any value of X and is the proportion of cases expected to have scores equal to or less than X; $S_n(X)$ is the observed cumulative frequency distribution of a random sample of N observation for any value of X.

The procedure is as follows: specify the null hypothesis; specify the level of significance; and state the decision rule. The degree of freedom is measured at 5% level of significance. The critical value of D for sample size of $N > 35$ (i.e. large samples). The decision rule is that null hypothesis (H_0) will be rejected if the calculated D (D_{cal}) is greater than

the tabulated D (D_{tab}) under the deviation level of 5%. The tabulated D from the kolmogorov-smirnov test table is usually represented by (α/\sqrt{N}) ; where $\alpha=1.36$ and N =number of observation.

H_1 : Customer relationship management (CRM) has significant relationship with customer retention in Nigeria's insurance companies

H_2 : Customer relationship management (CRM) does help create values for insuring public in Nigeria

While the H_0 represents the null hypothesis, the H_1 represents the alternative hypothesis. The null hypothesis is set up to be the logical counterpart of the alternative hypothesis such that if the null hypothesis is false, the alternative hypothesis must be true [67].

Results and Discussion

Personal details of respondents

The demographic characteristics of the respondents covered are sex, age, highest educational qualification and length of time with the organization. The information detailed in Table 1 reveals that male respondents consist 55.2%, and female respondents 44.8%. Also from Table 1, respondents with bachelor's degree or its equivalent ranked highest with 53.5%, followed by Master's degree, others and PhD holders with 31%, 12.1% and 3.4% respectively. This shows that respondents are knowledgeable and well trained enough to understand the concepts of CRM, customer retention and value creation. The respondents who have length of experience with the organization for ten but less than fifteen years are in the majority (39.7%), followed by those that have worked for five but less than ten years. The third ranked are those who have one but less than five work experience. The implication of this is that most of the respondents have had a reasonable length of work experience which explains their practical experiences of customers' action or inactions of these various constructs. The simple frequency percentage statistical instrument was employed in explaining the personal details of respondents (Tables 1-4).

Sex of the Respondents	No.	%
Male	32	55.2
Female	26	44.8
Higesht Qualification		
Bachelor's degree or its equivalent	31	53.5
Master's degree	18	31.0
PhD	02	3.4
Others	07	12.1
Length of time with the organization		
Less than one year	11	18.9
One but less than five years	08	13.8
Five but less than ten years	13	22.4
Ten but less than fifteen years	23	39.7
Fifteen years beyond	03	5.2

Table 1: Personal Details of the Respondents (Source: Survey report, 2012-2013).

	Responses (%)
CRM	
Agree	43 (74.1)
Indifferent	13 (22.4)
Not agree	02 (3.5)
Customer retention	
Agree	50 (86.2)
Indifferent	08 (13.8)
Not agree	00 (0.0)

Table 2: Responses to the testing of hypothesis 1 (Source: Survey report, 2012-2013).

Linear R	0.728
R Square	0.531
Adjusted R square	0.512
Standard Error	0.2101

Table 3: A simple linear regression analysis of contribution of independent variable to the dependent variable.

	DF	Sum of Square	Mean Square	F-ratio
Regression	1	3.659	3.659	
Residual		56	3.238	0.058

Table 4: Analysis of Variance Table.

Hypothesis 1: Table 3 indicates that the independent variable (CRM) yielded a coefficient of linear regression (R^2) of 0.531 accounting for 53.1% of the variance that portrays the relationship between CRM and customer retention in Nigeria's insurance industry. The table also shows that the analysis of variance for the simple linear regression data produced F-ratio value of 63.27 which significant at 0.05. The result from hypothesis 1 shows a positive significant relationship between CRM and customer retention. This, therefore, confirms the earlier studies who noted that customer focused service is an important component which has assisted facilitated mutual relationship between organizations and their various customers [68,69]. This result, again, concurs with those who earlier postulated that a variety of CRM activities can work together to enhance customer retention [70] (Table 5).

Hypothesis 2: CRM does not help create value for insuring public in Nigeria. From the Kolmogorov-Smirnov frequency table for the hypothesis, the calculated D value is the point of greatest divergence between the cumulative observed and cumulative theoretical distribution, which is 0.2701. The tabulated D from the Kolmogorov-Smirnov test table at $(\alpha/\sqrt{N} = 1.36/\sqrt{58})$ is given as:

$$D = \alpha / \sqrt{N} = 1.36 / \sqrt{58} = 0.1785$$

In this case, since calculated D value (0.2701) exceeds the critical value of 0.1785, the null hypothesis (H_0) stating that CRM does not help create values for Insuring public in Nigeria is rejected at $\alpha=0.05$ (Table 5). This, then, indicates that CRM does help create values for Insuring public in Nigeria. This result confirms the earlier study of [71] who posited that proactive customer business development and building partnership relationship with the most important customers will eventually leads to superior mutual value creation between the organization and their customers. Also, in support of this result, the study of Fagbemi and Olowokudejo [21] had empirically evidenced customers responses on the extent to which insurance organizations use the CRM strategies in value creation to their customers in Nigeria.

Conclusion

This study attempts to find out the interrelationships that subsist among CRM, customer retention and value creation with the Nigeria's insurance industry as a research ground for its empirical assessment. While the study proves a significant and indeed a positive relationship that exist between CRM and customer retention; it was also discovered from the surveyed respondents that CRM, indeed, creates values to the insuring public in Nigeria. In the study of Kotler and Armstrong [72], it has been stated that the goal of any organization should go beyond attracting new customers and creating transactions but should also include retaining existing customers. It has been noted that a long-term relationship leads to lower relationship costs and higher profits; and

Rank of view of respondents Hypothesis	Agree	Indifferent	Not agree
F= Number of respondents according to their views that CRM does not help create values for Insuring public in Nigeria	06	17	35
$F_o(X)$ =Theoretical cumulative distribution of choices under H_o	0.3333	0.6666	1
$S_n(X)$ =Cumulative distribution of observed choices	0.1034	0.3965	1
$ F_o(X)-S_n(X) $	0.2299	0.2701	0

Table 5: Kolmogorov-Smirnov frequency table for Hypothesis 2 (Source: Survey report, 2012-2013).

earlier research works had proven that customers who are loyal not only improve an organization's profit but also strengthen its competitiveness [73-75].

Customer value is being noted to depend on how the customer perceived the benefits of an offerings and the sacrifice that is associated with its purchase [76]. Therefore, companies need a set of morally and legally defensible values to guide their actions and to shape their dealings with both employees and customers. To this extent possible, insurance companies should clarify their firm's value and expectations in dealing with prospective and existing customers, as well as making effort to attract and retain customers who share and appreciate these identical values.

Recommendation, contribution to knowledge and limitations of the study

On recommendation, captains of the industry should stand up to the challenge of ensuring that insurance companies in Nigeria keep records of their customers and identifying the key ones and making effort to tailor products to meet customers' needs, desires and expectations. Secondly, the various touch points of insurance customers (that is, request for insurance coverage, filling of proposal forms, complaint lodgment, renewal of policies, claims request and the likes) should be genuinely and adequately attended to. Lastly, regular deployment and encouragement of IT facilities be used as means of maintaining and managing customers' relationship, retention and value creation.

This study contributes significantly to knowledge in that it educates insurance companies' managers of need to continually evaluate their firm's relationship management to customers and the need to integrate customer retention and value creation into their vision and mission statement. It also informs regulatory authorities of the need to continually review the customer database of insurance companies.

There are some notable limitations to this study. First, data were gathered from insurance practitioners (specifically marketing and underwriting officers) only and the views of the insuring populace were not considered. Secondly, the research was unable to evidence the database of the customers of surveyed companies. Lastly, future research can endeavour to investigate reasons why insurance companies find it almost impossible often time to retain a policyholder for longer period.

Competing Interests

The authors declare that they have no competing interests.

Author's Contribution

This work was carried out in collaboration between both authors. Author SIN designed the study and prepared the introduction. Author SSA reviewed the literature, gathered all the data, carried out the final estimations, statistical analysis and drafted the final manuscript. Author SIN edited the final draft.

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