

**SERVICE QUALITY AND CUSTOMER LOYALTY IN  
THE INSURANCE INDUSTRY IN KENYA**

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## **DECLARATION**

I, the undersigned, declare that this research project is my original work and has not been submitted to any university for any academic credit

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This project paper has been submitted for examination with my approval as university supervisor.

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## **DEDICATION**

I dedicate this project paper to my beloved parents and fiancé for their love and always believing in me. To my sister and brother, Mercy and Victor, I hope this inspires you to achieve your dreams.

## **ACKNOWLEDGEMENT**

First I thank God Almighty for providing me with an opportunity to do this research project and enabling me to successfully carry it out.

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## **ABSTRACT**

The insurance industry in Kenya has been steadily growing in the last few decades with many insurers understanding the importance of the customer and the need for competitive advantage. In today's competitive and fast paced environment, customer loyalty has often been cited as a significant factor. Customer loyalty is beneficial to a company's performance. Delivery of quality services leads to customer satisfaction enabling customer loyalty. This paper focused on determining the service quality levels in Kenya's insurance industry using the SERVQUAL model and its dimensions of empathy, responsiveness, assurance, reliability and tangibility. This research analyses the consequence of delivering quality services on the satisfaction of customers and their loyalty in the insurance industry in Kenya. To accomplish this data was collected from 150 respondents selected through stratified random sampling. There was 100% response rate. Data collected was evaluated using mean, standard deviation, correlation analysis using Kendall tau-b's model, regression analysis and mediation analysis. The results showed a significant and positive relationship between service quality, satisfaction and loyalty. The study also established that quality levels in the insurance industry are adequate but not excellent. This study found out that service quality creates a ripple effect on satisfaction and loyalty thereby significantly influencing the competitiveness of a company. The study therefore recommends that insurers need to enhance on all dimensions of service quality to increase the quality of service delivered. It also recommends that insurers focus on the quality of services and gratification of customers so as to build and sustain loyalty so as to increase performance and maintain a competitive edge.

# CHAPTER ONE

## INTRODUCTION

### 1.1 Background of Study

Through the years, service quality has progressively become more imperative in a challenging and contemporary service industry as a means of attaining sustainable profitable business. The service industry is highly competitive with many firms seeking to engage more customers so as to grow their market share and establish a long- lasting relationship with their customers. Organizations have to prove to their customers that they provide quality services that are customer focused (Shahin & Samea, 2010). Service quality is perceived differently among customers depending on how well the delivered service meets their needs.

Customers are the backbone of every organization that exists and more so in the service industry. The gurus Deming, Juran, Crosby and Feigenbaum, developed the total quality management (TQM) philosophies in a bid to create a powerful management tool that provides quality services with the available resources. An organization that relies on TQM is able to thrive and excel in a dynamic business environment. According to Feigenbaum (1983), TQM is a system that is effective in incorporating development of quality; efforts to improve quality and maintenance of the departments in a company so as to allow production and services at the best economical level that will guarantee total customer satisfaction.

In an increasingly competitive insurance industry, customer attraction and retention through customer loyalty is a key differentiator and basis of competitive advantage for organizations in the industry. Previously done studies show a strong link between quality services and the levels of loyalty. A customer will relay positive news about

the firm to others, and will not be swayed easily by competitors which is affirmed when they consider the firm as the first choice when shopping (Khalifa et al, 2011; Al-Mutairi, 2010). Service quality is contingent on how a customer perceives quality. This has led to the increased importance of the SERVQUAL model to assess and determine customer perception and expectations. Customers always have preference for services that are characterized by quality and specifications that are aligned with their requirements and needs, which subsequently motivates loyalty to the company (Al-Kurdi, 2011).

### **1.1.1 Service Quality**

Numerous attempts to define service quality have been made but there isn't yet a universally acceptable definition. Quality is similar to beauty as it lies in the eyes of the beholder. Deming defined quality in terms of lack of defects or reduction in variations. Juran defined quality as a product or service potential to be utilized. Crosby maintained that quality is an adaptation to demands (Rajicic & Ciric, 2017). Most Scholars are in agreement that service quality is defined depending on the client's perception of quality received paralleled to their expectation of the service delivered. Quality is based on a customer's perception and thus is challenging to quantify. Service quality is contingent on a customers' perception of quality. According to Brown and Bitner (2007), the rapid growth and competition in many industries has made it imperative for firms to measure and evaluate service quality.

Previous studies show that service quality is not easy to measure and conceptualize, however Parasuraman, Zeithaml and Berry (1988), proposed the SERVQUAL model to assess customer expectations and perceptions. The model intended to assess customers' views of quality service with an aim to investigate the extent of operation of an effective and dependable company (Hill & Alexander, 2006). The SERVQUAL

models relies on 5 dimensions; responsiveness, assurance, tangibles, empathy and reliability to measure the discrepancies between expectations and perception. Previous studies focused on the deployment of the SERVQUAL model into key business segments as it is trustworthy and reliable for decision making even today (Handrinis *et al.*, 2014).

According to Isoviita and Lahtinen (1998), if customers experience positive results based on their expectations, they have a good experience and do not notice any flaw however if the experiences do not match expectations they are unsatisfied. An organization may think they are delivering high quality services whereas the consumer may not feel the same way. This explains the importance of insurance companies understanding their clients and their needs and expectations to near perfection. Gronroos (1996) evaluated quality in the service sector as a concept with two main aspects; functional and technical. The technical element of quality emphasizes on results the customer obtains from the service. The functional aspect emphasizes the relationship between the service environment, the organization and the customer.

### **1.1.2 Customer Loyalty**

Customer loyalty happens when a customer chooses to transact with a certain firm or procures a specific service constantly (Carter, 2014). PR Loyalty solutions (2011) defined customer loyalty as a behavioral and an attitudinal disposition to fancy one company above others because of the contentment with convenience, service, and familiarity with the brand or performance. Customer loyalty occurs when a customer holds an emotional connection with an insurer's services and is willing to uphold a relationship with them in the long run. Recent studies show that emotional engagement is overtaking rational engagement meaning that customers are beginning

to judge products and services based on how those brands match their own values (Carter, 2014).

Both companies and consumers are seeking a relationship, one they can engage in and extract value (Manatt, 2014). Customers extract value in terms of quality services and satisfaction while companies get their value from loyal customers who are good for their bottom line of profitability and market growth. A customer's probability of repurchasing from the same insurer in future and the probability of procuring the same services at different price points is referred to as customer loyalty (Angelova & Zekiri, 2011). A research done by Harvard Business Review shows that loyal customers are usually much more profitable than new customers. Running a successful business necessitates loyal and repeat customers. They keep your business open, and advocate for your brand (Eklund, 2016).

Organizations should know how to keep their customers, regardless of the fact that they may appear satisfied. This is because they have recognized that to survive and grow, they have to find and then keep profitable customers (Ganiyu, Uche & Adeoti, 2012). Once an organization has fully satisfied a customer, they will want to purchase more of that service irrespective of what competitors may be offering. Loyal customers don't usually check your prices and compare them to the competition as diligently as other customers because they trust your services (Airas, 2015). A satisfied customer ultimately leads to a loyal customer as all their needs have been met. Customer satisfaction is an indicator or measure of the fulfilment a customer of a company, brand, product or service derives or obtains from interacting with the company, or brand or use of a product and delivery of a service. Loyalty walks side by side with certain positive emotions.

Customer loyalty results from a constant positive emotional experience or a tangible attribute-based value and satisfaction of an experience associated with a particular product purchased or a certain service received or enjoyed. It is when customers choose to use a specific shop or purchase a specific product or service, rather than use other shops or buy other products or substitute services made by or given by other companies or providers. Customers portray loyalty when they intentionally and unfailingly acquire a certain product, service or brand over a defined and often extended space of time.

Customer loyalty is a heartfelt desire to re-purchase a chosen service constantly in future without situational stimuli and advertising efforts having the possibility to induce switching behavior (Oliver, 1997). Loyalty is truly achieved when a customer is able to not only be a repeat buyer but also a champion of your product or service to his or her family and friends. Customers don't just tell their acquaintances and friends about bad experiences, they especially like to share the great experiences they may have had (Airas, 2015)

Customer loyalty is a powerful tool that provides organizations with a competitive edge over competitors in the industry. Gibson (2005) stated that a satisfied customer will most likely be a loyal one and this means they are most likely to do favorable word of mouth advertising. Quality perceptions and obligations are linked to loyalty however the said influences might differ in their effects on customer loyalty depending on the market environment (Sargeant & West, 2001)

### **1.1.3 Service Quality and Customer Loyalty**

The insurance sector has realized the need to redesign business operations in order to create the highest levels of efficiency thereby increase the levels of quality in their

organizations. Increase in customer demands and expectations have challenged firms to come up with exceptional methods of improving the quality of service (Alotaibi, 2015). This is especially relevant in the Kenyan insurance sector characterized by stiff competition and price wars. The Kenyan insurance sector is also characterized by lack of loyalty, with customers basing their decisions on the premiums required. As a result many companies have realized the customer centricity of the industry and have focused on quality in their operations in order to win and retain them.

In terms of loyalty's concerns, a move to a loyalty approach from a satisfaction - only approach through consistent quality delivery can significantly improve customer retention (Stan, 2013). Quality service is positively associated to customer loyalty making it a foundation for encouraging customer loyalty (Minh & Huu, 2016). Service quality all boils down to the experiences and anticipations of the consumer of the service and the longstanding goal of any firm is to satisfy the consumer, strengthen and maintain relationship with the customer and attain consumer loyalty (Donlagic and Fazlic, 2015)

#### **1.1.4 Insurance Industry in Kenya**

Kenya's insurance industry dates back to after independence in 1963 when it realized the need for a legislation to regulate the fast growing insurance business. 54 years later, the industry has grown to have 55 companies licensed as insurers and reinsurers (Insurance regulatory Authority). Statistics provided by IRA in 2016, show that insurance premiums had a growth of 12.3% largely driven by growth in the general (non-life) sector compared to 9.9% growth in the previous year. The improvement in written premiums was mainly due to an increase in disposable income by the middle income earners and increased awareness and access to insurance products. In 2013, a survey by IRA showed that 16% of the population had access to insurance as

compared to 9% in 2011. According to Gangcuangco (2017), United Kingdom's insurance sector leads the world in terms of offering quality services and superior customer service. This has led to a booming insurance industry with the industry contributing over 40 billion euros annually to the economy. Kenya should use UK as a benchmark for consistently delivering quality services.

Insurance business in Kenya is the most accomplished and well-regulated insurance market in Africa and more specifically, Sub-Saharan Africa with great and arduous historic growth. The industry is however highly competitive with Mergers and Acquisitions taking up the larger market share. According to the Association of Kenya Insurers (AKI), Kenya currently represents close to 70% of the East African insurance market with Kenyan companies expanding into the East African market. ICEA Lion has subsidiaries in Uganda and Tanzania while CIC Insurance operates in South Sudan and Uganda. Britam has affiliates and subsidiaries in Uganda, Tanzania, Rwanda, South Sudan and Mozambique.

The insurance business in Kenya is saturated with the market averagely growing at a rate of 14% (IRA). This results to unhealthy competition that has led to price wars and over capacity hence a cutthroat culture. There is widespread dissatisfaction in Kenya's insurance industry because insurers' fail to meet customer needs (Rand, 2004). This has led to loyalty that is based on prices. As at 2015, insurance penetration was at 4% of GDP. The penetration levels remain low while 55 companies compete for that market. An increase in other distribution channels such as direct selling via the internet and mobile services and emergence of bancassurance; which is the sale of insurance services through banks, has intensified competition. This combined with fraudulent claims, unscrupulous undercutting strategies and high claims has made the industry even more competitive hence the cutthroat culture. The introduction of the

Insurance Regulatory authority (IRA) has improved regulation by setting minimum premium for different classes of business thereby reducing this unfair competition. In a bid to increase solvency and improve capitalization, IRA also increased the minimum capital requirements. The industry players realize that the customers are now spoilt for choice in terms of alternatives for their services. In an industry where loyalty is very minimal, achieving satisfaction that can be turned to loyalty is no small feat. However managers are aware that customers are the core of their business and therefore will go the extra mile to ensure that their quality expectations are met and exceeded. Insurance companies need to rework their strategies so that they can develop or sustain a competitive advantage by creating a loyal customer that will not be swayed. The next frontier where business will be won or lost will be through customer loyalty through quality service delivery.

## **1.2 Problem Statement**

Most organizations in the insurance service industry have acknowledged the significance of customer loyalty. It is both expensive and difficult to attract new customers. In today's world of tech-savviness and fierce competition, customers are spoilt for choice on insurance service providers due to the influx of insurance companies in the Kenyan market. If they deem themselves not satisfied, they do not stay around to be proved otherwise. They simply move to a company that understands their needs and expectations. In this industry, providing quality services that meets and exceeds customer expectation will lead to satisfied customers. A continuously satisfied customer trusts the organization and that trust will lead to unwavering loyalty. Kim and Yoon (2004) defined customer loyalty as the readiness of customers to continue their interactions with a specific firm. In a competitive and disruptive

business, customer loyalty plays a vital role in creating a competitive edge (Lin & Wang, 2006).

The insurance industry has been steadily growing at rate of 14% per annum (IRA report, 2016) and has played a great role in contributing to the country's economic growth. Despite growth of the industry, bad perception of the industry by customers due to fraudsters and companies that do not make good on their claims, has led to a lot of distrust of insurance providers. In the past customers have based loyalty on pricing of the companies; however there is a new trend where customers place their trust and loyalty on high quality services particularly in the company's customer service and claims processing.

A research by Ito1 media (2015) found out that customers will be loyal to insurance providers who engages them by promoting their products honestly, treats them like valued customers at all times and delivers on its promises. Customers who are loyal to their company usually cost less to serve, last longer, promote their insurers, buy more and readily recommend the company to family, friends and acquaintances (Gunter *et al*, 2014). As stated by Schiffman and Kanuk (2004), it's not adequate for an organization to merely please its customers in a single interaction but they must make an effort to keep the customer for life, hence achieving customer loyalty.

Past research on customer loyalty shows there is positive connection amongst customer perceived quality and customer retention through loyalty. Beryl and Brodeur (2007) stated that interdependence between quality service and loyalty offers ingenious concepts to improve services so as to increase a competitive advantage. Auka, Bosire and Matern (2013) carried out a research on perceived quality and loyalty in retail sector of banking in Kenya. The study found out that that customers

who think their bank staff are empathetic by giving personalized attention, have a tendency to be more loyal as compared to those who think their banks invest more in appearances. Kheng *et al.* (2010), studied how loyalty is affected by the quality of service in Malaysian banks and established that satisfaction has an intervening impact on the interrelationship between service dimensions and customer loyalty. Asfaw (2015) researched the implications of quality service on satisfaction and loyalty in Ethiopian insurance sector and found that insurers should recognize that service quality factors and the presence of premium quality service has a good influence on customer satisfaction and loyalty. Dubey and Srivastava (2016) in their study of quality services and loyal customers found that service quality is a vital forerunner of loyalty of customers; it can be used as a tactic to uphold a continued rapport with the customers which will be of help in retaining the existing customers and hence attain customer loyalty.

Although there is acknowledgement that service quality and customer satisfaction are major causes of loyalty, a critical research gap remains on their influence in the insurance sector. This research project attempted to fill an existing knowledge gap by establishing the interrelation between service quality and customer loyalty in the insurance sector. This study sought to answer the following questions: What are the service quality levels in Kenya's insurance industry? What is the relationship between service quality, customer satisfaction and customer loyalty?

### **1.3 Research Objectives**

The principal objective of this study was to establish the relationship between insurance service quality and customer loyalty in Kenya. To accomplish this, the research covered the following specific objectives:

- i) To determine the service quality levels of the insurance industry in Kenya

- ii) To determine the relationship between service quality, customer satisfaction and customer loyalty in the Insurance sector

#### **1.4 Value of the Study**

This research intends to make theoretical and practical contributions to Kenya's insurance sector. It will help the managers of insurance industry gain insight on the effect of service delivery on satisfaction, trust and more importantly, loyalty.

The different players in the industry i.e. agents, brokers, insurance companies, reinsurers and regulators will be able to understand the current situation on service quality to enable them formulate informed policies and strategies on delivery of quality services with a mind to influence customer loyalty in the industry.

The results of this research will also contribute to the professional extension of existing knowledge in Operations Management by aiding in appreciating the role played by service quality in establishing customer loyalty. It will also provide a basis for reference in future research on quality service and customer loyalty.

## **CHAPTER TWO**

### **LITERATURE REVIEW**

#### **2.1 Introduction**

This chapter reviews work done by other researchers who have carried out research in the same field of study. The review focuses on theoretical review, conceptual framework, empirical review, summary, and research gaps.

#### **2.2 Theoretical Review**

There are various contributions that have been made in regards to service quality and customer loyalty by past researchers. Service quality is an important forbearer for customer satisfaction and more importantly customer loyalty (Islam, 2015; Saravanakumar and JothiJayakrishnan, 2014). The theoretical background of this study will be based on the Social Exchange Theory.

The Social Exchange Theory (Homans, 1958) postulates that relationships are based on symbiotic relationships. It states that all social relationships are developed by comparison of alternatives and cost-benefit analysis (Apondi, 2016). The Social exchange theory attempts to explain behavioral techniques on service quality, perceived value and subsequently loyalty. The theory states that customers will be willing to develop and maintain a relationship if they perceive the degree of reward will be beneficial to them.

This theory stipulates that the formula for forecasting the behavior for an individual in any situation as: Rewards of interaction – costs of interaction = Behavior (Crossman, 2017). According to the theory, the benefits of maintaining relationships with customers are mutually beneficial to both parties because customers become loyal which reflects positively in profits and market share growth for the organizations.

## 2.3 Customer Loyalty

Loyalty is an emotional character created by continuous gratification of the customer combined with emotional connection with the company that results in a frame of mind of enthusiastically and steadily being in the relationship with partiality and support (Rai & Srivastava, 2013). Toporek (2011) defined customer loyalty as the continuous and steady patronage to a business despite alternatives and competitors efforts to disrupt the affiliation. Loyalty is a firmly held obligation to procure a desired service or product unflinching in future, thus causing repetitive purchases (Oliver, 1999). Loyalty results from gaining the confidence of the customer such that the relationship becomes a mutually gratifying state for both the firm and customer (Ganiyu *et al.*, 2012).

Ball *et al.* (2004), proposed two scopes of customer loyalty: Behavioral loyalty and attitudinal loyalty. Behavioral loyalty refers to repetitive purchases from a specific service provider without any emotional connection justifying the behavior. This is usually out of habit and not necessarily because they have a good relationship with the organization. They may be avoiding the switching costs of moving to another company or they simply may find it too hectic to switch despite dissatisfaction hence inducing fake loyalty. According to Lee *et al.* (2001) the existence of switching costs can mean that some customers who seem loyal are actually not satisfied but do not leave the company due to the sizeable amount of costs involved in switching. This is relevant to the insurance industry in that some clientele may be dissatisfied with the quality of services provided but may be unwilling to switch because they are too lazy and want to avoid switching costs.

Attitudinal loyalty on the other hand refers to loyalty displayed by a customer when they genuinely feel positively about the company. They have a positive attitude and trust the brand to such an extent that they will play advocate for the company by praising the brand to their family and friends. They have a good emotional connection and will not hesitate to refer the brand to any listening ear. An attitudinal behavioral customer should also be behavioral such that they don't just preach without actually making any purchases. Attitudinal loyalty is good for the company as it leads to good sales and good reputation.

Customer loyalty can be ascertained using trust levels of customers, perceived value derived and price tolerance. Loyalty should lead to a deep emotional relationship of trust with the service providers. When customers trust a brand they are loyal to a fault and will experience no qualms in providing information to the insurance company that will help them design products and services that suit them. A customer derives value from services if they perceive that the service received goes above and beyond their expectations. Customer loyalty often induces price tolerance in that loyal customers will often justify a premium increase as an increase in value in terms of additional benefits and will most likely not be quick to switch to competitors. Price insensitivity or tolerance refers to customers not being influenced by premiums while making purchasing decisions. Customer loyalty often leads to other secondary benefits to the firm such as referrals, brand advocacy and price tolerance (Toporek, 2011)

The intense and fierce competition in Kenya's insurance industry necessitates that companies not only attract but also retain existing customers. Insurance players should increase their revenues by monetizing loyalty. According to Limayem (2004), a five percent increase in loyalty can grow profits up to eighty five percent. Motivating the loyal customer base to act as their agents in an extremely competitive

market is a good strategy for maximizing profits through increased sales revenues. Markidan (2017) wrote that the profitability of selling to existing customer base is up to fourteen times higher than the probability of selling to a new customer. Today's customer is spoiled for choice with many firms competing for their attention. How you consistently make customers feel at all touch points and the quality of experience will determine how loyal they will be to you, if they will be back, purchase more and be your brand (Brandi, 2017).

## **2.4 Service Quality**

Quality is a powerful weapon in every sector of the market as it enables firms to grow their market share and competitiveness while increasing customer satisfaction and loyalty levels (Demir et al., 2015). This has led to many organizations embracing a culture of quality. A culture of quality begins with management that identifies and recognizes the implications of the systems view and understands the necessity of keeping the customer first to succeed. This results in a culture where a good internal environment and creating thrilled loyal customers go hand in hand (Safty, 2012). According to Deming's philosophy, quality is a management responsibility and managers must create and generate systems that generate quality. Juran's philosophy focused on a habit of quality whereby quality is a continuous process of improvement.

Service quality is the degree of how well a delivered service contrasts the expectations set in the eye and mind of the customer. Businesses that achieve and or go beyond the expectations of their customers are considered to have high service quality. Service oriented business operators often assess the quality of their service to, among other things, improve them and to better assess client satisfaction. Service quality is no longer a competing instrument but the strategic focus of any organization that wants to succeed in today's insurance market. Service quality is an intricate

concept usually considered as customer conclusions about the service provider and customer relations with the service itself (Cronin & Taylor, 1994; Zeithaml et al., 1996).

Parasuraman *et al.* (1985) introduced the SERVQUAL model in an attempt to measure quality. He identified ten dimensions as the criteria imperative in evaluating customer's perceptions of quality service and their expectations (Kumar *et al.*, 2009). The ten dimensions of service according to Parasuraman *et al.* (1988) are responsiveness, communication, reliability, competence, tangibility, access, credibility, security, courtesy and understanding the customer. They were later condensed to 5 dimensions including tangibility, empathy, responsiveness, reliability and assurance.

Tangibility refers to the physical aspect of the services being provided. In the insurance industry, it is characterized by the physical location of the company, insurance certificates and policy documents. It is the physical measurement used to assess quality. Reliability is the ability to deliver on promises in an accurate and timely manner. It is consistently providing quality services in a trustworthy and dependable manner. Responsiveness refers to the dimension that responds to customers in quickly and effectively. It is when the company reacts quickly and positively to customer needs and/or demands. Empathy is the act of providing individualized attention to the customer and listening and understanding the customer's perspective. Assurance refers to providing customers with a peace of mind and confidence in the company's ability to deliver on promises

Sachev and Verma (2004), attempted to quantify quality services in respect of customer attitude, expectation, satisfaction and perception. However Nyeck *et al*

(2002), maintains that the SERVQUAL model has had the greatest success in service quality measurement. Chodzaza and Gombachika (2013) recognized service quality is a forbearer of customer satisfaction, retention, operational efficiency and profitability. Past studies have confirmed that service quality influences organization performance positively (Munari *et al.*, 2013). Quality is an essential instrument for establishing and maintaining a satisfactory relationship with customers (Chu *et al.*, 2012). Service quality influences customer loyalty (Lee & Moghavvemi, 2015).

## **2.5 Customer Satisfaction**

Feelings of contentment or displeasure ensuing from contrasting expectations vis-à-vis the outcome or customer's perceived performance is referred to as satisfaction. Satisfaction is exceeding of service provision over customers' expectations (Chen, 2015) According to Huang and Feng (2009), the performance of a company in regards to the quality of its services leads to satisfaction. Agbor (2011) states that the main reason for providing quality services is to satisfy customers. Gera (2011) established that quality of service greatly impacts customer satisfaction and value perceptions in a positive manner. The best way to determine if services are good or bad and whether they will satisfy customers is through measuring service quality (Agbor, 2011).

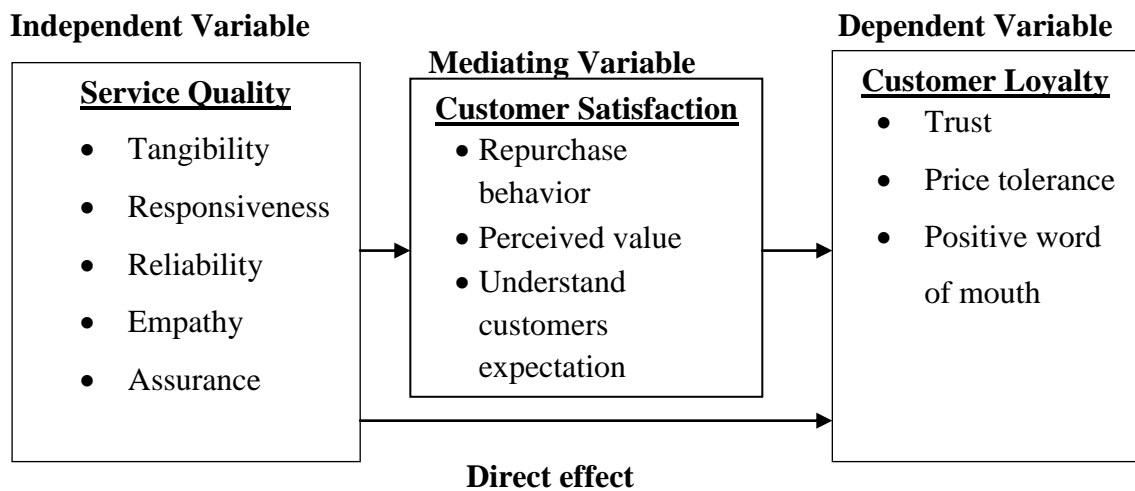
Customer satisfaction often leads to customer loyalty because most people are risk-averse and therefore tend to avoid risk by maintaining relationships with firms they have good experiences with (Minh & Huu, 2016). Customer satisfaction has been cited as the forbearer of loyalty in the service environment in prior studies done (Belas & Gabcova, 2016).Service quality should therefore be the major goal of the insurance industry if they want to keep their customer satisfied thereby maximizing profits in their superior quality service delivery.

In a bid to rise above competitors, customer satisfaction has become a powerful business objective because satisfaction is generally used as an indicator of how well customers perceive a company's performance. Numerous empirical data confirm an existing bond between satisfaction and loyalty. Customer satisfaction has often been quoted among the main causes of customer loyalty through various studies that have validated the strong relationship (Alegre & Cladera, 2009; Eshghi et al., 2007). Eriksson and Vaughult (2000), found the basis of satisfaction being a predecessor of loyalty on evidence that by satisfying customers, they are very likely to remain loyal to the organization.

## **2.6 Conceptual Framework**

Conceptual framework refers to a system of concepts, expectations, beliefs assumptions, and theories in which a researcher operationalizes to support and inform a research (Robson 2011). Satisfaction performs a mediating function in examining the association between customer loyalty and quality. The function of a mediating variable is to transfer the effect of an independent variable on a dependent variable (MacKinnon *et al.*, 2010).

**Figure 2.1: Conceptual Frame Work of the Study**



**Source: Own Compilation**

A positive correlation between quality of services performed and loyalty of customers exists with satisfaction acting as a mediator (Chodzaza & Gombachika, 2013). Deviations in the quality services create deviations in customer satisfaction that ultimately form deviations in customer loyalty (Auh & Johnson, 2005). According to Montserrat, Scheike and Nielsen (2012) a satisfied customer is usually less sensitive to price changes, not attentive to competing brands, relays favorable messages about the firm, purchases other insurance products as well making it is easier and more economical to service him/her than it would be new customers.

Zairi (2000), states that a customer that is satisfied will most probably purchase a product and relay their experiences to up to six other people. Excellence in the quality of service and the subsequent level of customers' satisfaction is constantly related to the customers' loyalty (Shambachew, 2015). A company may be offering quality services but does not necessarily meet the expectations of the customer but the customer stays anyway due to behavioral loyalty.

## **CHAPTER THREE**

### **RESEARCH METHODOLOGY**

#### **3.1 Introduction**

This chapter presents research design, population sample, sample design, data collection techniques and analysis. It covers and describes methods and procedures used in conducting the study, expected results and presentation methods.

#### **3.2 Research Design**

Descriptive research design was adopted in carrying out the research. Dudovskiy (2016), states that descriptive research is designed to provide information on concerns or problems through data collection that makes it possible to define a situation better than it would have been able to without using this method. A descriptive research assists in ascertaining and describing the attributes of the variables of concern in a manner that portrays the characteristics of that particular situation and has the advantage of accuracy and flexibility (Kombo & Tromp, 2006)

#### **3.3 Population of the Study**

The targeted population for this research included all fifty-five insurance companies in Kenya (APPENDIX II).

#### **3.4 Sample Design**

The respondents for this study were the customers of the various insurance companies. This study used stratified random sampling in order to represent the three categories of insurance classes (strata): Composite, General and Life. Stratified sampling involves selecting subjects in a way that the subdivisions in a population are represented in the sample (Mugenda, 2003). A sample of ten insurance companies

was picked from each strata leading to a total of thirty registered and certified insurance companies. Further random sampling of five individual customers randomly chosen from walk – in’s in the chosen thirty company sample was used. This gave a sample size of 150 respondents. The justification for this is it gives an equal chance to all respondents for selection

### **3.4 Data collection**

Primary data was collected using questionnaires. The inclination to use a questionnaire was founded on the reasoning that respondents are able to complete them anonymously, easily and quickly. A questionnaire is also faster and more economical to use compared to other methods.

The questionnaire collected data on the service quality dimensions. Customer loyalty items were selected on observable and emotional behavior characteristics including, derived value, trust, willing to pay premium price, repurchase, referrals and advocacy. The choice of these items ensures wholeness in examining all features of loyalty consequence behaviors.

### **3.5 Data Analysis**

Descriptive statistical analysis was used evaluate the respondents perception of service quality. Regression and correlation analysis was used to ascertain the association between service quality, satisfaction and loyalty. They were also used test if service quality directly affects the loyalty of customers. Pie charts, graphs and frequency tables were used to analyze the demographic features. Mediation analysis was used to examine the magnitude to which mediator variable (satisfaction) mediates the connection between quality and loyalty. Tables and graphs are used for presentation of the data for ease of understanding.

## CHAPTER FOUR

### DATA ANALYSIS, PRESENTATION AND INTERPRETATION

#### 4.1 Introduction

This chapter contains the analysis of the collected data which was analyzed using SPSS. Mean, correlation, mediation, linear regression and standard deviation were used for analysis. The outcome was presented in pie charts, frequency tables, and bar graphs to simplify the data.

This study had 100% response rate from its target audience of 150 customers. The questionnaires incorporated questions that addressed the objectives of the research. The goal of the study was to determine the quality of service in Kenya's insurance industry and to determine the link between service quality, satisfied customers and loyal customers in the insurance sector.

**Table 4.1: Response Rate**

<b>Response rate</b>	<b>Frequency</b>	<b>Percentage</b>
Completed	150	100
Incomplete	0	0
<b>Total</b>	<b>150</b>	<b>100</b>

#### 4.2 General information

The general information sought in this study were, names of the insurance companies, the gender of respondents, age group and education level achieved.

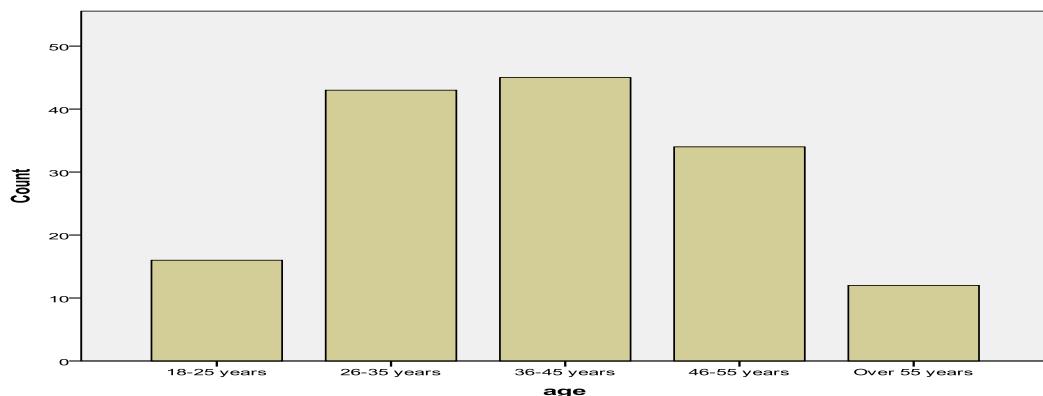
Majority of the respondents were female amounting to 76 while 74 were male. This indicates that the sample was well distributed hence the responses received expressed views of both sexes.

### 4.2.1 Age group of respondent

The researcher inquired the age distribution of the respondents. The results were that majority (30%) of the respondents were middle aged people at 36-45 years, the age bracket of 26-35 years at 29% then those between 46-55 years at 23%, for those between 18-25 years there were 11% and over 55 years were 8%. This indicates that the study gathered views from diverse age brackets. The findings are as displayed below:

**Table 4.2: Age distribution of respondents**

Age	Frequency	Percentage
18-25 years	16	11%
26-35 years	43	29%
36-45 years	45	30%
46-55 years	34	23%
<b>Over 55 years</b>	12	8%



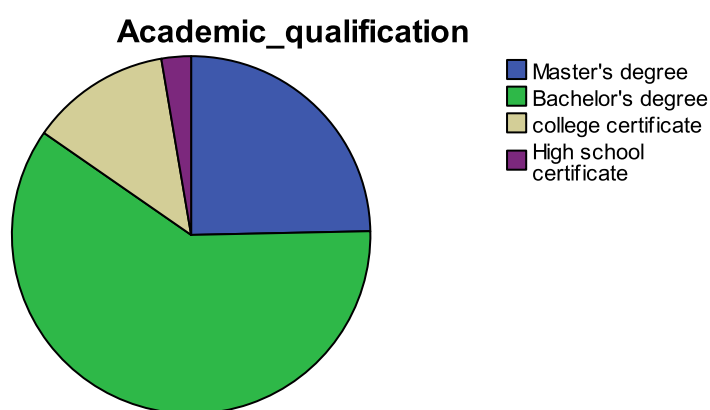
**Figure 4.1: Graphical presentation of the age distribution of respondents**

### 4.2.2 Level of education

The extent of educational progress of the respondents affects the way respondents interpret of the questions. The research observed that most (60%) of the respondents had attained university level education while those with post graduate level accounted for 24.7%. 12% of the respondents said that they had tertiary college education and 2.7% had high school education. The study findings are shown in Table and pie chart below;

**Table 4.3 Academic qualifications of respondents**

		Frequency	Percent	Cumulative Percent
Valid	Master's degree	37	24.7	24.7
	Bachelor's degree	90	60.0	84.7
	college certificate	19	12.7	97.3
	High school certificate	4	2.7	100.0
	Total	150	100.0	



**Figure 4.2: Graphical representation of academic qualifications of respondents**

### 4.3 Service quality levels of insurance companies

This study investigated service quality levels in insurance companies by examining whether the offices were accessible, employees are helpful with customers, if the company delivers on their promises, if the policy document is easy to understand, if the company provides excellent services, if it keeps accurate records, if employees are well dressed, if the company meets their customer specifications, delivers within their time frames and has the clients' best interest at heart. The study also sought to find out if customer calls are responded to promptly and quality services are received. Table 4.4 presents the results obtained from respondents.

**Table 4.4: Service quality levels of insurance companies**

<b>Construct</b>	<b>N</b>	<b>Mean</b>	<b>Std. Deviation</b>
The company offices were easily accessible and are physically appealing	150	3.94	.697
The employees were helpful and showed sincere interest in solving problem	150	3.87	.757
The company delivers on their promises	150	3.71	.807
The policy document is easy to understand	150	3.43	.806
The company provides excellent services consistently	150	3.73	.818
The company keeps accurate records	150	3.80	.803
Employees are usually well dressed and polite	150	4.07	.761
Customer specifications are always followed	150	3.77	.787
The company meets their promised time frames for response	150	3.71	.870
The company has my best interests at heart	150	3.53	.857
The services are performed right the first time	150	3.77	.737
Calls and queries are quickly responded to	150	3.57	.958
I received quality services	150	3.77	.787
N (Sample size)	150		

From the findings, the respondents were agreeable that the employees were helpful and showed interest in problem solving as shown by a mean of 3.87. This means that the industry is responsive to their clients' needs however at a mean of 3.87 there are not fully satisfied therefore insurers should train their employees on excellent customer service. Respondents representing the customers agreed that the employees were well dressed and polite as evidenced by a mean of 4.07. This means that customers are pleased with the physical appearance of employees and that they are courteous and helpful. The employees prompt response to calls was mostly a neutral response from the respondents as shown by a mean of 3.57. This indicates that employees should therefore improve on their response calls in order to urgently address customer needs. The companies' offices were mostly accessible and physically appealing as indicated by a mean of 3.94. This means that the insurance offices are easily accessible to majority of customers and customers are happy with their physical appearance. There are those who did not agree and hence this shows that there is still room for improvement regarding the location of the offices.

The policy documents are not as easy to understand to half of the sample population as revealed by a mean of 3.43. The companies should endeavor to simplify their policy documents to ensure their customers understand all their products. Respondents agreed that their company delivers on their promises as revealed by a mean of 3.71. Some respondents indicated otherwise and hence the companies should endeavor to consistently deliver on their promises. From the table 4.4, respondents agree that insurers provide excellent services at a mean of 3.73 and a standard deviation of 0.818. The mean was just above average and hence companies should improve on their services so as to ensure the customers agree on the service excellence. Respondents stated that accurate records are maintained as shown by a

mean of 3.80. This means that record keeping by insurers is agreeable to most customers however they should improve to fully satisfy the customers. The companies ought to improve on their record keeping skills to easily retrieve information whenever needed. Majority of the respondents indicated that customer specifications are followed as shown by a mean of 3.77. This shows that the customers were not fully convinced that their specifications were met. The mean was close to neutral and hence companies should be keen to ensure they follow customer specifications.

Most of the respondents indicated that companies meet their promised time frames as indicated by a mean of 3.71. This means that there are occasional delays from the companies which results in unsatisfied customers. Insurers should therefore ensure that services are delivered on timely basis. Majority of the respondents did not feel that their companies had their best interest as shown by a mean of 3.53. The customers seem to not be confident with regards to how their interests are looked after by the insurance companies. Customers are not confident with the services being performed right at the first time. The companies should ensure their staffs are well trained to deliver quality services the first time. A majority of the customers agreed they received a quality services by a mean of 3.77. This shows that companies have room to improve on this to score a higher mean when it comes to performance of services right at the first time and ensuring customers feel that they have received quality services.

The insurance customers' responses were slightly above the neutral mark and hence this indicated that the companies needed to improve on the service quality dimensions to meet customer needs. Improvement on the service quality offered will ensure that customers are more satisfied and hence remain loyal to their products.

## 4.5 Customer satisfaction levels of insurance companies

This study investigated customer satisfaction levels in insurance companies by examining whether the services received were excellent, problems were solved in a quick and effective way, the employees were knowledgeable, high quality services were offered, premiums charged were satisfactory, customers were pleased with the services offered, claims processing was quick and prompt, superior services are provided by the insurance companies, operational hours are satisfactory, customers feel valued, insurance companies provide a one stop shop for various products, customers welcome treatment received and feel satisfied. Table 4.5.1 exhibits the results obtained from respondents.

<b>Descriptive Statistics</b>			
	<b>N</b>	<b>Mean</b>	<b>Std. Deviation</b>
Customer service was excellent	150	3.89	.799
The process of getting my problem was resolved was quick and effective	150	3.75	.802
The employees were knowledgeable and prompt	150	3.89	.812
Services offered by the company were of high quality	150	3.73	.835
The premiums charged are satisfactory	150	3.78	.785
I was pleased by the service offered	150	3.75	.810
Claims processing was quick and payments prompt	150	3.50	.817
My insurer delivers superior service in every way	150	3.69	.868
The hours of operation are satisfactory	150	3.84	.715
I feel that I am a valued customer	150	3.69	.883
My insurance company is a one-stop shop for all insurance products	150	3.51	.888
I welcome the treatment I got from this company with full satisfaction	150	3.69	.874
I am a satisfied customer	150	3.77	.853

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I welcome the treatment I got from this company with full satisfaction	150	3.69	.874
I am a satisfied customer	150	3.77	.853
Valid N (sample size)	150		

The results observe that respondents were neutral in their responses. This shows that customers are averagely satisfied with their insurers. This also validated by a mean of 3.77. Respondents agreed that employees were helpful and the services received were excellent as pointed out by a mean of 3.89. Customers were okay with regards to their problems being solved in a quick and effective way as indicated by a mean of 3.75. The employees were knowledgeable and prompt as indicated by a mean of 3.89. The customers were averagely satisfied with the quality services offered as shown by a mean of 3.73. The premiums charged were satisfactory obtained a slightly above average response as indicated by a mean of 3.78. This means that customers are not 100% comfortable with the rates that are charged by insurers. Most respondents were

pleased with the services offered as shown by a mean of 3.75. The respondents were indifferent regarding claims processing being quick and prompt as shown by a mean of 3.5. This shows that respondents were not happy with claims processing procedures and insurers should improve on their claims procedures. Respondents were not confident with the superiority of services offered by their providers as indicated by a mean of 3.69. The hours of operation are satisfactory as indicated by a mean of 3.84. Most of the respondents were not overly confident that they were valued by their company as shown by a mean of 3.69. A mean of 3.51 indicates that respondents did not feel that their insurers provided a one stop shop for their insurance products. A mean 3.69 means that customers do not fully welcome treatment they receive from their insurance companies. This statistics shows that the insurance industry has not yet fully met the needs of their customers and as such should work on strategies that will achieve the same.

#### **4.6 Customer loyalty levels of insurance companies**

This study investigated customer loyal levels in insurance companies by examining whether the insurance companies can satisfy customer future needs, whether customers trust their insurance companies, whether customers were willing to pay a more for the services of their insurance companies', if customers would say positive things about their insurers, if customers would remain with their current insurance companies, if customers would recommend their insurance companies to people they know, if customers are likely to consider their current insurance first, if customers feel they received value for money, if a premium increase would affect customer decision to keep insuring with their company and if they are loyal to their insurance companies. Table 4.6.1 presents the results obtained from respondents.

<b>Descriptive Statistics</b>			
	<b>N</b>	<b>Mean</b>	<b>Std. Deviation</b>
I believe my insurer can satisfy my future needs	150	3.89	.852
I trust my insurance company	150	3.76	.870
I could pay slightly more for the services of this insurance company	150	3.60	1.06
I will say positive things about my insurer	150	3.85	.854
I would prefer to retain my present insurer	150	3.87	.830
I am likely to recommend this company to my friends and people I know	150	3.89	.863
I am likely to consider my current insurer first while purchasing other services	150	3.81	.960
I received value for my money	150	3.67	.924
A premium increase will not affect my decision to keep insuring with my insurer	150	3.57	1.05
I am a loyal customer	150	3.81	.895
Valid N (sample)	150		

The results indicate that the loyalty levels in the industry are at a mean of 3.81 meaning that loyalty levels are average. This study observes that at a mean of 3.89 on satisfaction levels, customers are loyal at a mean of 3.81. This can be interpreted to mean that those clients who felt they received superior services and are satisfied where loyal and those that felt otherwise followed an approach where price determined their loyalty. The levels of trust at a mean of 3.76 shows that trust plays a significant role in customer loyalty as validated by overall loyalty mean of 3.81. Pricing will affect the decision a customer has on remaining loyal as indicated by a mean of 3.6 and 3.57, however customers that deemed themselves to be receiving superior services indicated that a price change may not influence their decision to

insurer with their providers. The researcher also observed that loyal customers will say positive things about their insurer and would recommend their insurer to others.

#### 4.7 Correlation Analysis

Correlation between service quality, customer satisfaction and customer loyalty has been analysed using Kendall's tau-b measure. The relationship is indicated in the table 4.7.1 below:

**Table 4.7.1: Correlation results**

Correlations					
			Service quality	satisfaction	loyalty
Kendall's tau-b	Service quality	Correlation Coefficient	1.000	.398**	.873**
		Sig.	.	.000	.000
		N	150	150	150
	satisfaction	Correlation Coefficient	.398**	1.000	.399**
		Sig.	.000	.	.000
		N	150	150	150
	loyalty	Correlation Coefficient	.873**	.399**	1.000
		Sig.	.000	.000	.
		N	150	150	150
**. Correlation is significant at the 0.01 level.					

According to Kendall's tau-b, service quality is clearly correlated to satisfaction. This is reflected at a coefficient of 0.398 at  $p = 0.01$  ( $r = 0.398$ ,  $p < 0.010$  meaning that the concepts; service quality and customer satisfaction are definitely interrelated. Their relationship is significant as indicated by 0.000 which is less than 0.01. This means that insurers should provide quality services because it will significantly increase their

customers' satisfaction levels. Customer satisfaction and loyalty are also positively correlated as evidenced by a coefficient of 0.399 at  $p = 0.01$  ( $r = 0.399$ ,  $p < 0.01$ ). Their relationship is significant at 0.000 which is less than our significance of 0.01. This can be translated to mean that insurers should recognize that an increase in customer satisfaction will strongly influence customer loyalty. A coefficient of 0.873 at  $p = 0.01$  ( $r = 0.873$ ,  $p < 0.01$ ) reveals that customer satisfaction and customer loyalty are completely interrelated. Their relationship is significant as indicated by 0.000 which is less than 0.01. This means that service quality directly impacts customer loyalty positively.

#### **4.5 Regression analysis**

Linear regression was used to examine the influence of service quality in foretelling the variations in loyalty. The equation below was used:

$$(CL) = \beta_0 + \beta_1 (SQ) + \varepsilon$$

Where;

CL = customer loyalty

$\beta_0$  = Constant or intercept

$\beta_1$  = Slope

SQ = Service quality

$\varepsilon$  = Error term.

Model results are presented in Table 4.5.

**Table 4.5: Regression Results**

Model		R	R Square	Adjusted Square	R	Std. Error of the Estimate
dimension0	1	.881 <sup>a</sup>	.776	.775		.335
a. Predictors: (Constant), service quality						

ANOVA <sup>b</sup>						
Model		Sum of Squares	df	Mean Square	F	Sig.
1	Regression	57.742	1	57.742	513.832	.000 <sup>a</sup>
	Residual	16.631	148	.112		
	Total	74.373	149			
a. Predictors: (Constant), service quality						
b. Dependent Variable: loyalty						

Coefficients <sup>a</sup>						
Model		Unstandardized Coefficients		Standardized Coefficients	t	Sig.
		B	Std. Error	Beta		
1	(Constant)	.632	.140		4.514	.000
	Service quality	.842	.037	.881	22.668	.000
a. Dependent Variable: loyalty						

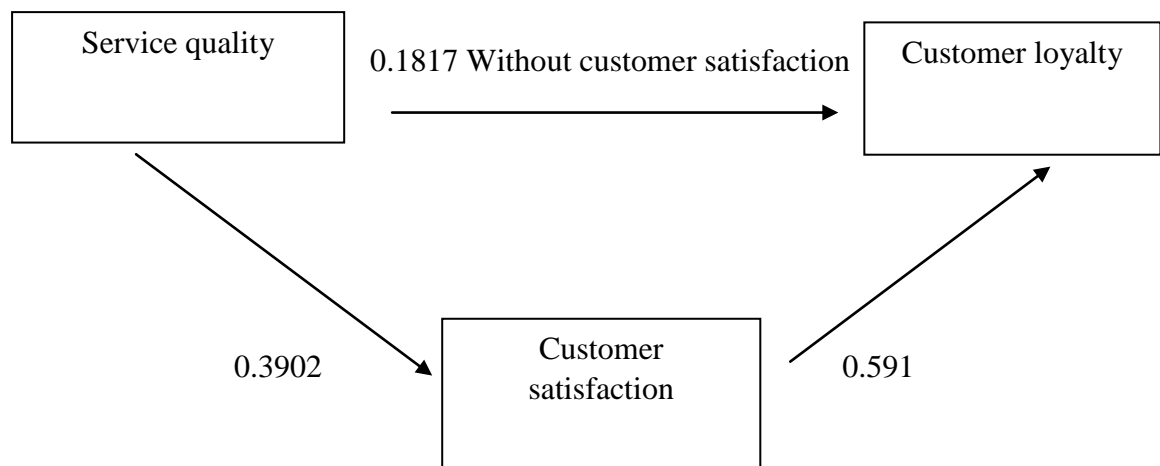
The results indicate that quality and loyalty are significantly related at 0.000 ( $p < 0.05$ ). This is explained by the coefficient of determination  $r$  squared which is at 77.6%. The predictor variable that is service quality therefore predicts 77.6% of the variance in loyalty. This indicates that quality is a good predictor of loyalty. The anova model presents a significance of 0.000 which is statistically significant indicating that the model is appropriate for testing the relationship. The coefficient values are used in the linear equation to determine the outcome variable. The B of 0.632 indicates the value

of service quality at zero value. The gradient of 0.842 or the slope indicates the increase in the slope for each point added. The t test indicates that the model is significant. This is shown by a significance of 0.000 which is less than 0.05. This study established that customer loyalty in the insurance industry was dependent on service quality and there is a strong linear relationship.

#### 4.6 Mediation analysis

Mediation analysis was used to show that satisfaction intervenes the relationship between service quality and loyalty.

**Figure 4.3 Conceptual framework for mediation analysis**



$$\text{Mediation} = (0.3902 * 0.591 = 0.2306)$$

**Table 4.6 Results of mediation analysis**

<b>Model Summary</b>						
Customer satisfaction and						
	Coeff	se	t	p	LLCI	ULCI
service quality	0.3902	0.0706	5.5253	0.0000	0.2506	0.5297
<b>Model Summary</b>						
Total effect model						
Outcome: loyalty						
	coeff	se	t	p	LLCI	ULCI
satisfaction	0.591	0.0431	1.3708	0.0000	-0.0261	0.1442
service quality	0.1487	0.0407	20.1333	0.0000	0.7383	0.899
<b>Model summary</b>						
Loyalty and						
	Coeff	se	t	p	LLCI	ULCI
service quality	0.1817	0.0371	22.6679	0.0000	0.7683	0.9151

**Table 4.7 Effects of Mediation**

<b>Direct effect of X on Y</b>						
Effect		SE	t	p	LLCI	ULCI
0.1487		0.0407	20.1333	0.0000	0.7383	0.899
<b>Indirect effect of X on Y</b>						
Effect		SE	t	p	LLCI	ULCI
Satisfaction	0.2306	0.023	25.2	0.000	0.011	0.0905

Confidence level for all intervals in output: 95.00

Where:

Y = loyalty

X = service quality

M = satisfaction

df - degrees of freedom

se - standard error

t - t test

p- Significance level

ULCI -Upper limit confidence interval

LLCI -Lower limit confidence interval

Sample size - 150

Direct correlation between service quality and loyalty is at a coefficient of 0.1817 which is significant. A strong relationship exists between quality and satisfaction with a coefficient of 0.3902. A notable association between satisfaction and loyalty is confirmed at a coefficient of 0.591 meaning that a significant direct relationship exists without customer satisfaction mediating the relationship.

The mediation will occur at the path with 0.3902 and 0.591 which are multiplied and result to 0.2306. This shows that mediation has a stronger transitive relationship than the direct relationship of service quality and loyalty. Customer satisfaction increases the chances of a consumer becoming loyal by a huge margin. Customer satisfaction will have a great impact on the decision a customer makes regarding remaining loyal to the services of an insurance company.

## **CHAPTER FIVE**

### **SUMMARY, CONCLUSION AND RECOMMENDATIONS**

#### **5.1 Introduction**

This chapter focuses on the summary of findings, conclusions and recommendations resulting from the study. This is on the basis of the findings that have been found from the research and discussed in the previous chapter.

#### **5.2 Summary**

The research had two main objectives: To determine the service quality levels of the insurance industry in Kenya and to establish the relationship between service quality, customer satisfaction and customer loyalty. The study established that there is a positive relationship. This finding is validated by Kumar et al. (2009) who argued that the higher service quality levels are, the higher the customer satisfaction level which subsequently increases the levels of customer loyalty.

The results from this research found that service quality plays a big role in customer loyalty. Customer satisfaction also plays an intervening role and increases the likelihood of customer loyalty. Service quality alone can lead to customer loyalty, however when combined with satisfaction there is an increased probability of customer loyalty. Loyalty is a strategy that increases profitability by keeping the most profitable customers. An increase in customer loyalty positively impacts word of mouth recommendations, repurchase intentions and price sensitivity (Bell & Smalley, 2005). The positive relationship that was established was inferred as high satisfaction resulting from high service quality levels leading to higher levels of customer loyalty.

The research aimed to establish the level of quality services in the insurance industry. It found most customers to be satisfied with their insurance service providers however

at a mean of 3.77; there is room for improvement on delivery of quality services. The study also found that the respondents that deemed themselves to be receiving quality services were willing to pay more for the same services. This validates that quality service leads to price insensitivity. The findings showed that the quality of service has a direct bearing on the loyalty of insurance customers. This suggests that management of insurance companies should identify the levels of services they need to offer and improve the areas that customers are concerned with. The study identified that claims processing played a significant role in establishing loyalty. Management should ensure that their claims processing is quick and they should deliver on their promises. For example, if they promised two weeks to process and pay a claim they should ensure that their claims process should not take more than the stipulated fourteen days.

This research also established that satisfaction does indeed mediate quality and loyalty in the insurance service industry. Srivasta and Rai (2013) stated that in the viewpoint of insurance services, customer satisfaction intervenes the relationship between quality services and customer loyalty. The management of insurance companies should invest in satisfying their customers if they want to retain them in the long haul. The results of the research also indicated that satisfaction of customers directly impacts their loyalty. This can be understood as customers having positive behavioral intentions to repurchase and maintain the existing relationship after receiving what they perceived as high quality services.

### **5.3 Conclusions**

The research findings show that insurance companies should develop and design strategies designed to provide high quality services to customers consistently. Customer's attitudes towards service delivered and satisfaction derived from

interaction and service delivered will directly impact a customer's decision to be loyal. Insurance products are not greatly differentiated and can only have competitive edge based on quality and price. Customer loyalty is one of the best tools an insurer could use to achieve strategic advantage in present - day cutthroat insurance industry.

The study concluded that while customers find the service quality levels in the insurance sector okay, they could do better. Most customers found the policy document difficult to understand. The policy document is especially important as it contains the terms on contract. If a customer does not understand the contract and does not understand the terms of condition, they can easily feel cheated when they claim and are referred to a certain claim that excludes the particular circumstances of the loss. For example, most customers are usually unaware that their motor vehicles are not covered for political violence and terrorism in a basic comprehensive cover. The study also found that customers do not think that insurers have their best interests at heart. Insurers should work on making their customers feel like they really do have the customers' interest in mind. This will increase trust and contribute to loyalty. The study found that most customers were happy with physical appearance of their insurance companies and impressed with neatness and knowledgeability of the employees.

#### **5.4 Recommendations**

With reference to the research study outcomes and the inferences made, some recommendations can be made to augment the quality of service and customer loyalty in the insurance sector. This research project has a few managerial recommendations.

Insurance companies should focus on improving the quality of services they provide to customers. The study recommends that management should endeavor to ensure that

they make good on their promises. They should ensure they pay claims and as per the stipulated time. Insurance companies also need to invest in contact centers to ensure that they are just a phone call away from the customer as most clients felt that calls and queries are not quickly responded to. Managers should insure that they create a good relationship with their customers such that they make clients feel that their interests are well taken care of. Insurance companies should also simplify their policy documents for ease of understanding. In cases where they do have to use complex terminologies a glossary can be provided explaining the meaning of the words in layman's language. New technologies and innovations should be invested in towards increasing service quality levels in the insurance industry.

The study resolved that customer satisfaction acts as a mediator by increasing loyalty levels. Insurance companies should understand their customer themselves and their needs and how to evaluate service quality in order to succeed in satisfying them. This study recommends the use of the dimensions of the SERVQUAL model to gauge and assess the customer's expectations Vis a Vis what is being delivered. In order to prosper, the insurance industry needs to satisfy the desires of the customers and aim to anticipate their future needs. This will go a long way in providing customer's comfort and confidence in Kenya's insurance industry.

In line with this argument and the results of this research, insurance companies would be wise to prioritize loyalty. Delivering quality services and consistently satisfying their customers will increase their chances of increasing their loyal customers. This study also recommends loyalty programs to entice new and keep loyal customers. Rewarding loyalty through yearly discounts and recognition through gifts and simple individualized appreciation messages will ensure that customers feel appreciated and remain loyal. This study also recommends that insurers be in touch with their

customer's every step of the way in life's journey from beginning of life, to acquisition of wealth to loss of life; both joyous and sad occasions. This will deepen the relationship between insurer and customer as they both benefit from the long – term relationship where the insurer gains a loyal customer and customers have peace of mind and feel valued by growing with the insurer.

### **5.5 Limitations of the study**

Respondents were met outside insurance companies and most of them were hesitant to provide information as they were afraid that the information would be provided to their insurances and hence providing an undesirable bias toward them in the future from the insurer. The researcher handled their concerns by providing a letter of recommendation from the University and assurance that their response was strictly classified and for research purposes only. The respondent also had a challenge where some respondents were hesitant to provide unflattering information about their insurers. The researcher assured them that information provided will be used to advice the insurers on bettering services .The researcher also reminded them that they were not required to provide their names or policy number hence they will remain anonymous.

### **5.6 Recommendations**

This study emphasized on the effects of the three main variables on customers. The researcher did not seek out the role of internal customers in establishing external customer loyalty. This research project concentrated solely on the satisfaction and loyalty of the external customer. This study recommends further research on the role an internal customer plays in external customer satisfaction and internal customer loyalty. This study should form a basis for further research.

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## APPENDICES

### Appendix 1: Questionnaire

Dear Sir/ Madam,

I am student of the University of Nairobi undertaking my Master of business administration (MBA) degree. I am currently carrying out a research project on service quality and customer loyalty in the insurance industry in Kenya. The study will be used of use to the management of insurance companies, agents and brokers and regulators.

I kindly request you to answer all questions in this questionnaire. Any information provided will be used in confidence and exclusively for purposes of this research study.

#### Section A: General Information

1. Kindly indicate the name of your Insurance Company:  
.....
2. What is your age group?  
18 - 25 years ( )      36 -45 years ( )  
26 - 35 years ( )      46 – 55 years ( )  
Over 55 years ( )
3. What is your gender  
Male ( )                      Female ( )
4. What is your highest academic qualification?  
Master's degree                      ( )  
Bachelor's degree                      ( )  
College certificate                      ( )  
High school certificate                      ( )  
Other (specify) .....
5. What is your marital status  
Single ( )                      Married ( )
6. Which type of insurance cover do you have?  
Life insurance ( )    Non-life/General insurance ( )    Both life and General ( )  
)
7. If general /non-life as mentioned above which type is it?

Comprehensive ( ) Third party ( ) Third party, fire and theft ( )

8. Have you ever made a claim?

Yes ( ) No ( )

9. How long have you been insured? .....

10. How much do you pay for your premiums annually?

.....

**Section B: Dimensions of service quality**

The statements below indicate the determinants of levels of service quality in the insurance company. They are based on the dimensions of the SERQUAL model. Kindly rank the statements on a scale of 1-5(minimum to maximum) to reflect the degree to which you are in agreement with the statements.

<b>CONSTRUCT</b>	<b>Strongly agree</b>	<b>Agree</b>	<b>Neutral</b>	<b>Disagree</b>	<b>Strongly disagree</b>
The company offices were easily accessible and are physically appealing					
The employees were helpful and showed sincere interest in solving problem					
The company delivers on their promises					
The policy document is easy to understand					
The company provides excellent services consistently					
The company keeps accurate records					
Employees are usually well dressed and polite					
Customer specifications are always followed					
The company meets their promised time frames for response					
The company has my best interests at heart					
The services are performed right the first time					
Calls and queries are quickly responded to					
I received quality services					

### Section C: Indicators of customer satisfaction

The statements below indicate the determinants of customer satisfaction with the insurance company. Kindly rank the statements on a scale of 1-5 (minimum to maximum) to reflect degree to which you are in agreement with the statements.

<b>CONSTRUCT</b>	<b>Strongly agree</b>	<b>Agree</b>	<b>Neutral</b>	<b>Disagree</b>	<b>Strongly disagree</b>
Customer service was excellent					
The process of getting my problem was resolved was quick and effective					
The employees were knowledgeable and prompt					
Services offered by the company were of high quality					
The premiums charged are satisfactory					
I was pleased by the service offered					
Claims processing was quick and payments prompt					
My insurer delivers superior service in every way					
I welcome the treatment I got from this company with full satisfaction					
I am a satisfied customer					

**Section D: Indicators of customer Loyalty**

The statements below indicate the determinants of customer loyalty with the insurance company. Kindly rank the statements on a scale of 1-5(minimum to maximum) to reflect degree to which you are in agreement with the statements

<b>CONSTRUCT</b>	<b>Strongly agree</b>	<b>Agree</b>	<b>Neutral</b>	<b>Disagree</b>	<b>Strongly disagree</b>
I believe my insurer can satisfy my future needs					
I trust my insurance company					
I am willing to pay slightly more for the services of this insurance company					
I will say positive things about my insurer					
I would like to remain as a customer of my present insurer					
I am likely to recommend this company to my friends and people I know					
I am likely to consider my current insurer first while purchasing other services					
I received value for my money					
A premium increase will not affect my decision to keep insuring with my insurer					
I am a loyal customer					

**THANK YOU FOR PARTICIPATING**

## **Appendix II: List of Registered Insurance Companies in Kenya**

<b>NO</b>	<b>COMPANY</b>	<b>BUSINESS TYPE</b>
1	A P A Insurance Limited	Composite
2	British-American Insurance Company (Kenya) Limited	Composite
3	Cannon Assurance Limited	Composite
4	Continental Reinsurance Limited	Composite
5	Corporate Insurance Company Limited	Composite
6	East Africa Reinsurance Company Limited	Composite
7	First Assurance Company Limited	Composite
8	Geminia Insurance Company Limited	Composite
9	Kenindia Assurance Company Limited	Composite
10	Kenya Reinsurance Corporation Limited	Composite
11	Madison Insurance Company Kenya Limited	Composite
12	Mercantile Insurance Company Limited	Composite
13	The Jubilee Insurance Company of Kenya Limited	Composite
14	The Kenyan Alliance Insurance Company Limited	Composite
15	The Monarch Insurance Company Limited	Composite
16	AAR Insurance Kenya Limited	General
17	Africa Merchant Assurance Company Limited	General
18	AIG Kenya Insurance Company Limited	General
19	Allianz Insurance co. of Kenya Limited	General
20	CIC General Insurance Limited	General
21	Direct line Assurance Company Limited	General
22	Fidelity Shield Insurance Company Limited	General
23	G A Insurance Limited	General
24	Gateway Insurance Company Limited	General
25	ICEA LION General Insurance Company Limited	General
26	Intra Africa Assurance Company Limited	General
27	Invesco Assurance Company Limited	General
28	Kenya Orient Insurance Limited	General
29	Mayfair Insurance Company Limited	General
30	Occidental Insurance Company Limited	General
31	Pacis Insurance Company Limited	General
32	Phoenix of East Africa Assurance Company Limited	General
33	Real Insurance Company Limited	General
34	Resolution Insurance Company Limited	General

35	Sanlam General Insurance Limited	General
36	Takaful Insurance of Africa Limited	General
37	Tausi Assurance Company Limited	General
38	The Heritage Insurance Company Limited	General
39	Trident Insurance Company Limited	General
40	UAP Insurance Company Limited	General
41	Xplico Insurance Company Limited	General
42	Apollo Life Assurance Limited	Life
43	Barclays Life Assurance K ltd	Life
44	Capex Life Assurance Company Limited	Life
45	CFC Life Assurance Limited	Life
46	CIC Life Assurance Limited	Life
47	G A Life Assurance Limited	Life
48	ICEA LION Life Assurance Company Limited	Life
49	Metropolitan Life Insurance Kenya Limited	Life
50	Old Mutual Life Assurance Company Limited	Life
51	Pan Africa Life Assurance Limited	Life
52	Pioneer Assurance Company Limited	Life
53	Shield Assurance Company Limited	Life
54	Saham Assurance company K ltd	Life
55	UAP Life Assurance Limited	Life

**SOURCE: IRA Website (2016)**