

**IMPACT OF SERVICE QUALITY ON CUSTOMER RETENTION:  
THE MEDIATING EFFECT OF CUSTOMER SATISFACTION**

**BY**

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## **Declaration of Authenticity**

I, Susmita Dahal, declare that this GRP is my own original work and that it had fully and specifically acknowledged whatever adapted from other sources. I also understand that if at any time it is shown that I have significantly misinterpreted material presented to SOMTU, any credits awarded to me based on that material may be revoked.

Signature:

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## Abbreviations

ASSRE	Assurance
AVE	Average Variance Extracted
CA	Cronbach's Alpha
CFA	Confirmatory factor analysis
CR	Composite Reliability
CR	Customer Retention
CS	Customer Satisfaction
EMPHY	Empathy
HTMT	Heterotrait Monotrait
NRB	Nepal Rastra Bank
PLS-SEM	Partial Least Square - Structural Equation Model
RELBY	Reliability
RESPS	Responsiveness
SQ	Service Quality
TANGB	Tangibility

## **Executive Summary**

Life Insurance is a pure service in which customers face more difficulty in evaluating quality compared to goods. The Nepalese life insurance sector has been growing in both quantitative and qualitative over the last decade. With the increase in the number of companies and range of services offered, life insurance providers face stiff competition and customer defection. Therefore, they need to focus on strategy to create a win-win situation for both customers and service providers. Life insurance players have started realizing that the success of their business depends on customer satisfaction and retention, which is only possible by offering high-quality services. Hence, the study's objective was to examine the impact of service quality on customer satisfaction and retention.

For this study, the data was collected from 280 customers of five different life insurance companies in Kathmandu, Nepal. Descriptive statistics were used to explain the characteristics of the variables. In addition, the Partial Least Square - Structural Equation Model (PLS-SEM) was adopted to test the conceptual framework. The finding shows that tangibility, reliability, assurance, and empathy positively and significantly influence customer satisfaction and customer retention. However, responsiveness shows a positive but insignificant relationship with customer satisfaction and a significant relationship with customer retention. Moreover, the result also shows that customer satisfaction mediates the relationship between service quality and customer retention. Hence, this study highlights the importance of high-quality service in this competitive world. The good quality services would not only satisfy the needs of the customers but also retain customers for the long term and helps to gain competitive advantages over the competitors.

# CHAPTER I

## INTRODUCTION

### 1.1 Background of the Study

Humans are exposed to wide range of risks and uncertainties, unforeseen and unexpected incidents such as death, property losses by theft, fire, accident, etc., which cause monetary losses. Risks and events are uncertain and impossible to predict before. Therefore, people need to focus on the best way to minimize the risk that arises during bad situations. Insurance is the only way that helps to divide, manage and transfer the loss from one person to another or institution in exchange for payment.

The future is very uncertain, but there is a technique (i.e., Life insurance policies) to protect one's family and to make children's future safe. Life insurance offers money or other forms of financial help to their family and other close relatives after his/her death. Further, it aids in making our family's and children's future secure and prosperous. Life insurance is also thought to encourage the saving behavior and benefits tax saving.

In Nepal, using life insurance to save funds is not common due to a lack of awareness and low income. But, since the past few years, some growth has been seen in the insurance industry with the increase in life insurance users from 23% to 27% of the total population (i.e., an increase by 4%) from 2020 to 2021, respectively (Dhungana, 2020). The number of the number of people purchasing life insurance has increased over the past few years since Nepalese people are aware of future losses and uncertainties after facing the pandemic problems like an earthquake (2015) and Covid-19 (2019).

The insurance industry is facing new challenges in the market, like many other financial institutions: emerging technologies, challenging economic conditions, strong rivalry, customer churn, and rising policyholder demands. On the other hand, customers of Nepalese Life insurance companies are facing the problem of delay in claim settlement and poor quality of service from service providers. Life Insurance

companies' success relies upon various factors, including customer satisfaction, service quality, technical quality, customer retention strategy, relationship commitment, and so on (Hartono & Raharjo, 2015; Siddiqui & Sharma, 2010). Thus, offering the best service quality has been assumed to get success in the Life insurance sector in Nepal.

Each business benefits from the ability to set its goods and services apart from those of its rivals. This increases sales and market share, strengthens relationships with customers, and improves a company's reputation. Additionally, it leads to customer and employee satisfaction, which aids in lowering turnover rates. Further, good word-of-mouth assists in attracting new customers (Caruana, 2002; Gera et al., 2017).

Retention is viewed by American insurers as being the major element that influences the economic success of a country (Moore & Santomero, 1999). Customer retention leads to enhancing a company's profitability by reducing the cost of customer acquisition, as insurance agencies pay more to acquire a customer than any other business. Further, Zeithaml et al. (1996) claimed that it takes at least three or four years for an insurance policy to be renewed in order to recover the selling cost. Thus, to get success in life insurance, policyholders need to retain their customers for longterm.

Venetis & Ghauri (2004) highlighted that for insurers to survive, it is crucial that they provide high-quality services and satisfy their clients. Further, Siddiqui & Sharma (2010) suggested that improving service quality increases the overall customer satisfaction and customer retention in life insurance services. Moreover, a study by Ismail et al. (2017) supports the findings that Customer satisfaction in the insurance industry is significantly and positively connected with customer retention and service quality.

In light of the prior research findings, this study investigates how customers perceive the level of service quality provided by life insurance services. Additionally, it examines how customer satisfaction mediates the relationship between services quality and the customer retention. Further, by describing the effect of service quality on customer satisfaction and customer retention, this research can assist the insurance sectors in formulating their strategies.

## 1.2 Statement of the Problem

Due to the problems caused by the Corona epidemic around the world, the Nepalese life insurance business has been directly affected, like other service sectors. Stiff competition, delay in claim settlement, and low service quality of insurance companies result in policy lapse, customer defection, or switching of a customer from one company to another. It has been a significant problem facing Nepalese Life insurance companies over the past few years (Basaula, 2017). Besides, in the present situation of a global pandemic and cut-throat competition, it won't be easy for insurers to keep their all clients happy, retain them, and attract new ones.

Understanding customer perception and their level of satisfaction with the company's product and service is a significant weapon for the company's success (Venetis & Ghauri, 2004). Customer satisfaction and retention of customers toward life insurance companies and their policies rely on the service quality offered by the insurers to the policyholders (Ismail et al., 2017). Since Nepalese life insurance companies are facing the problem of customer defection or switching of customers from one company to another. Thus, service providers need to know how satisfied their customers are with their services. Moreover, how does service quality impact on retention of customers towards their company? Though some research has been done on this topic in other service sectors like Banks, Microfinance, Hotel & restaurant, and so on, neither study has been done in the Life insurance sector in Nepal. Thus, this study focused on service quality and its impact on customer satisfaction and retention in the context of Nepalese Life insurance companies.

The study tries to answer the following questions:

- What is the status of the Service quality, customer satisfaction, and their retention in the Nepalese Life insurance companies?
- What effect does the customer satisfaction with service quality dimensions have on the retention of customers in the Nepalese Life insurance companies?
- Does there exist any mediating effect of customer satisfaction in the relationship between Service Quality Dimensions and the Retention of Customers?

### **1.3 Objectives of the Study**

The main goal of this study is to determine how service quality affects customer satisfaction and customer retention. Additionally, this study examines the role that customer satisfaction plays as a mediator in the connection between service quality and customer retention. However, the following are the specific objectives of this study:

- To assess the status of service quality dimensions and customer satisfaction in the context of customer retention in Nepalese Life insurance companies.
- To examine the impact of service quality dimensions on the retention of customers.
- To determine the mediating effect of Customer Satisfaction between Service Quality and Customer Retention.

### **1.4 Research Hypothesis**

In order to investigate the mediating relationship between customer satisfaction with service quality and customer retention, a number of hypotheses were developed and tested in this study. The many pieces of literature and the conceptual framework served as the foundation for the hypothesis.

Upadhyay & Adhikari (2021); Yap & Kew (2007) found that five dimensions of service quality including tangibility, reliability, responsiveness, assurance and empathy are correlated and have positive and significant impacts on customer satisfaction among life insurance companies. Further, this evidence is also supported by the study of Ismail et al. (2010) in medical sector in West Malaysia. Mahmood et al. (2018) has reflected that four features of service quality (empathy, responsiveness, assurance and tangible) have positive impact on customer satisfaction. However, reliability is found to have negative relation with customer satisfaction in the Hospitality industry.

H1: Service Quality dimensions have a significant positive impact on customer satisfaction.

- H1a- Tangibility has a significant positive influence on customer satisfaction.
- H1b- Reliability has a significant positive influence on customer satisfaction.
- H1c- Responsiveness has a significant positive influence on customer satisfaction.
- H1d - Assurance has a significant positive influence on customer satisfaction.
- H1e- Empathy has a significant positive influence on customer satisfaction.

According to Zineldin (2002), Customers who are satisfied are less price sensitive, purchase more products, are less influenced by competitors, and remain loyal for a longer period of time. Hansemark & Albinsson (2004) found to have direct impact of customer satisfaction on customer retention.

H2: Customer satisfaction has a significant positive impact on Customer retention.

Ravichandran et al. (2010) found that Customer retention is strongly impacted by five dimensions of service quality (tangibility, reliability, responsiveness, assurance and empathy) in the life insurance companies. The same was claimed by (Nsiah & A Mensah, 2014) in Banking industry in India. Further, Ismail et al. (2010) pointed that Service quality features were positively and significantly correlated with Customer retention.

H3: Service quality dimensions have a significant positive impact on Customer retention.

- H3a- Tangibility has a positive influence on customer retention.
- H3b - Reliability has a positive influence on customer retention.
- H3c - Responsiveness has a positive influence on customer retention.
- H3d - Assurance has a positive influence on customer retention.
- H3e - Empathy has a positive influence on customer retention.

Olorunniwo et al. (2006) confirmed that indirect effect of service quality on behavioral intention including customer retention with mediating variable customer satisfaction is higher than its direct effect in service sector. This finding is also supported by the study of Ishfaq et al. (2010) and also claimed that Customer

Satisfaction strongly mediates a relationship between service quality dimensions and customer retention.

H4: Customer Satisfaction mediates the relationship between service quality dimensions and customer retention.

### **1.5 Significance of the Study**

Nepalese life insurance companies are facing the problem of customer defection and switching of the customer from one company to others due to poor service quality and stiff competition among service providers. Thus, this study aims to assess the impact of service quality on customer retention mediated by customer satisfaction of life insurance customers in Kathmandu Valley. This study is important for companies to understand how service quality and its dimensions impact customer satisfaction and Customer retention. Furthermore, managers might design various strategies which helps them to get competitive advantage in the Nepalese insurance services sector

By providing details on the current level of customer satisfaction related to service quality, this study will also assist life insurance businesses, policymakers, and managers of the insurance company in developing various strategies to keep customers in the organization. Moreover, it provides insight into how each aspect of service quality is essential in the modern era to raise customer satisfaction and retention rates.

The results of this study will assist in gaining competitive advantages for customer satisfaction and long-term customer retention, which is the result of improving the facilities or quality of services and attracting customers away from other cooperatives and financial institutions. This study will also give relevant information to concerned organizational levels, managers, and policymakers so they may understand the service quality model suitable for the Nepalese insurance sector.

This study will also be helpful to many academics and academicians who could be interested in conducting research studies in the same field. This study will help them better understanding the mediating role that customer satisfaction plays in between service quality and customer retention. Furthermore, by describing how service quality dimensions affect customer satisfaction and retention, this study will assist

researchers, managers, and policymakers in understanding the connection between service quality dimensions, customer satisfaction, and customer retention. It will also assist the insurance industry in developing strategies.

### **1.6 Limitations for the Study**

Following are some limitations of this study:

- The relationship and impact of insurance service quality dimensions on customer satisfaction and customer retention are the only topics covered in this study. However, there might be other factors that influence customer satisfaction and retention of life insurance customers in Nepal, like delay in claim settlement, poor relationship management, high Premium amount, and so on. But all the factors cannot be included in a single study.
- It focuses only to the customer of life insurance companies within the Kathmandu valley, so the results couldn't be generalized to the other sectors.
- The responses collected through google forms may not significantly underline the true picture of the research.
- This study explains the relationship between the variables only at a point in time using the cross-sectional design. So, using longitudinal design could explore the further relationship between the variables.
- Lack of relevant literature, particularly from the Nepalese perspective, is another limitation of this research.

### **1.7 Structure of the GRP Report**

The preliminary section, the body of the report, and the supplementary section are the three main sections of this research study. Title page, certification, declaration, acknowledgment, table of contents, list of tables, list of figures, abbreviations, and Executive summary make the first preliminary section. This report's body part is divided into five chapters by subcategories. All of the chapters can be summed up as follows:

The problem statement, objectives, hypotheses, significance of the study, study limitations, and the structure of the GRP report are all included in the first chapter,

which also provides a general background of the research that was adapted from many articles.

The second chapter of this report, titled "Literature Review and Theoretical Framework," offers the researcher's perspective from perusing currently available literature on the subject in order to fully understand the research topic with the respective theoretical framework. In this chapter, the research's dependent, mediating, and independent variables are identified.

The research methodology that the researcher used to conduct the study is covered in the third chapter. It is made up of the following: the research design, the population and sample, instrumentalism, the data sources, the data collection technique, and numerous data analysis methods.

The report's analysis and discussion are presented in the fourth chapter. This chapter includes an overview of the data gathered, the necessary analysis to determine whether the research objectives were met, and the study's findings.

The report's conclusion, discussion, and implications are presented in the last chapter. This section includes a summary of the report, discussion, and conclusion. It also includes recommendations for further research and suggestions for solutions to the problems that were identified.

## **CHAPTER II**

### **RELATED LITERATURE AND THEORETICAL FRAMEWORK**

This chapter exhibits the different theories that relate to the theoretical model for the study as well as a review of the empirical studies on the relationship between service quality and retention of customers and mediating role of customer satisfaction.

#### **2.1 Theoretical Literature Review**

The main objective of this research is to identify the impact of service quality on the retention of life insurance customers with mediating role of customer satisfaction. Customers are the lifeblood of every business. To sustain in today's competitive market and earn a profit, a company needs to know whether their customers are satisfied or not with the quality of their products/services.

The most widely accepted and used service quality and customer satisfaction models in the service sector are SERVQUAL or, the RATER model and the SERVPERF (Service-Performance) model. SERVQUAL model proposes that satisfaction level is the result of the difference between expected and perceived performance of service quality. Similarly, the SERVPERF model defines that satisfaction level is measured based only on perceived performance. This study is based on SERVPERF Model to measure the satisfaction level of customers towards perceived service quality.

##### **2.1.1 SERVQUAL Model**

The SERVQUAL also known as Service Quality Model is a multidimensional research instrument, created to collect and examine consumer expectations and perceptions towards service along five dimensions and a 22-item scale that is believed to represent and measure a service quality (Anantharathan Parasuraman et al., 1991). There are 22 items in the questionnaire for each of the expectations and perceptions components, which includes four items to capture tangibles, responsiveness and assurance and five items for reliability and empathy for each dimension.

SERVQUAL is built on the expectancy-disconfirmation paradigm. It is assumed that customers have their own expectations before using services, and that these

expectations are matched after experiencing services (Oliver & Burke, 1999). As a result, service quality can be understood as a simple equation:

$$\text{Service Quality (SQ)} = \text{Perception of individual for given service delivery (P)} - \text{Expectation of an individual for given service delivery (E)}.$$

Quality of service is considered low when customer expectations exceed their perceptions of received delivery. Similarly, when perceptions exceed expectations, service quality is assumed superior. Hence, Customer satisfaction level towards service quality is measured through these gap scores in the SERVQUAL model.

### **2.1.2 SERVPERF Model**

Although many studies have suggested SERVQUAL as a diagnostic tool which makes it possible to identify opportunities and areas for improving the quality of the services. Frago & Espinoza (2017) concluded that the methodology of this model is little complex because the results were expressed in negative averages, which makes their explanation more complicated. Further, the study of Cronin Jr & Taylor (1994) claimed that service quality with the relation between expected and experienced approach is not a proper way for quality assessment. Thus, SERVPERF (Service Performance) Model was developed based on a critique of SERVQUAL by (Cronin Jr & Taylor, 1994).

As per the SERVPERF model, service quality must be measured as an attitude. SERVPERF is a more effective model as compared to others because it uses purely performance-based scale for measuring service quality. Ibarra Morales & Casas Medina (2015) claimed that SERVPERF Method requires less time to implement the survey, and the research analysis is easier to carry out because it minimizes the number of service quality items reducing 50% of the questions presented by the SERVQUAL model.

The study by Cronin Jr & Taylor (1994) indicated that the SERVPERF Model has superior theoretical concept than SERVQUAL Model. It was further supported in the various industries like Insurance sectors, Banking and financial institutions, Hotels & restaurants, and so on (Fragoso & Espinoza, 2017; Nsiah & A Mensah, 2014; Paposa et al., 2019). The study of Meesala & Paul (2018) suggested that only the

performance component of SERVQUAL should be used to measure service quality. Further, Paposa et al. (2019) claimed SERVPERF Model is a best model to measure the service quality of life insurance businesses. As a result, the SERVPERF model (i.e., the performance-only method) has been used in this study to measure service quality since it is validated by almost all current research, which finds that SERVPERF is superior to alternative service quality models.

## **2.2 Empirical Literature Review**

This section of the chapter details out the review of the recent literature about the service quality, Customer satisfaction and customer retention. Several empirical research studies were evaluated to determine the effect of service quality on customer retention, with customer satisfaction serving as a mediating factor. It serve as a base for the development of the theoretical framework of the study and formulation of the hypothesis to be tested.

### **2.2.1 Review of Service Quality**

Different authors have given different definitions of the term "service quality." According to Anantharathan Parasuraman et al. (1991), Service quality is a function of the difference between customer perception and customer expectations towards the performance of Company's products and services.

The service quality is the customers overall impressions on superiority or inferiority of company services (Taylor & Baker, 1994). From this definition, service quality has been highlighted as a key to the survival of all servicing companies. Providing the quality service helps to attract and retain the greater number of customers. In addition, it helps to increase the number of existing clients by reducing customer's dissatisfaction with fewer mistake and at the same time helps to increase customer satisfaction and company's profit (Lee & Heo, 2009).

Service quality is linked with customer satisfaction and retention in the service industries. According to Siddiqui & Sharma (2010), most of the life insurance companies have started to provide high service quality to their customers by realizing that good service quality is the strategy to differentiate one company from another. Gayathri et al. (2005) identified the service quality dimensions as a major tool that

offer competitive advantage to the insurance players and also highlighted that non-price differentiation instruments influence more to customer satisfaction.

Different research has different findings on service quality dimensions. Most of the study suggested that tangibility, reliability, responsiveness, assurance, and empathy are the major service quality dimensions. The study of Khan & Fasih (2014) claimed that tangibility, reliability and assurance dimensions are the major driving forces of service quality. However, Ahmad & Sungip (2008), found reliability and responsiveness are the most preferable dimensions of service quality in the Malaysian insurance industry. Further, this finding was also supported by the study of Ramamoorthy et al. (2018) in the Indian Life insurance context, and also concluded that reliable and responsive customer support significantly impact the customer satisfaction and customer retention.

### **2.2.2 Literature review for Customer satisfaction (Mediating variable)**

Customer satisfaction is the most important topic in all the sector including life insurance industries. According to the Kotler & Keller (2006) customer satisfaction is defined as a feeling of pleasure or disappointment to the consumers that arises from product perceived performance. On the other hand, confirmation and disconfirmation of consumer expectation measures the satisfaction level of customers (Bearden & Oliver, 1985).

Satisfied customers are valuable assets to any organization. Siddiqui & Sharma (2010) found that level of customer satisfaction is based on service quality and concluded that improving service quality increases customer satisfaction in life insurance services. Furthermore, agent-buyer relationship also influences the satisfaction level of policyholders (Crosby & Stephens, 1987). Moreover, quick responsiveness and prompt attention to customer problems and concerns is important to satisfy policyholders in the life insurance industry (Goswami, 2007).

Numerous studies have been done on the topic of customer and satisfaction retention. Some scholars have taken customer satisfaction as a mediating variable to construct a mediating effect of customer satisfaction between the dependent (service quality) and independent variable (customer retention) in different service sectors in different countries (Hartono & Raharjo, 2015; Mahmood et al., 2018; Ramamoorthy et al.,

2018; Rawat & Kumar, 2017a, 2017b; Sweeney et al., 1999). These studies have found customer satisfaction mediates (either complete or partial) the relationship between service quality and the retention of the customer.

Further, the study of Ishfaq et al. (2010) confirmed that the indirect effect of the service quality dimensions on the retention, through the mediating variable (Customer satisfaction), is much higher than the direct effect of dimensions of service quality on the retention. Further, it identified that Customer satisfaction strongly mediates a link between service quality dimensions and customer retention. But, in the Nepalese life insurance sector, none of the study has been done yet by taking these three variables: Service quality, customer satisfaction and customer retention in the same study.

### **2.2.3 Literature review for Customer Retention**

Different authors have described the term Customer retention differently. Chiu et al. (2014) conceptualized customer retention as the situation where consumer has a long-term attachment with a company and buys particular merchandise or service of the same company for a long. Likewise, Customer retention in life insurance occur when policyholders retain to the same company until the ending of insurance period or occurrence of the events insured for (Eggert & Ulaga, 2002). Moreover, Retention involves repeated purchase and maintaining continuous purchasing relationship with an insurer which can be achieved by providing high quality service (Hussen, 2015).

Due to stiff competition in the market, retaining customers is one of the biggest challenges facing service firms today. Service continuance and customer retention is a key behavioral construct studied by various scholars (Söderlund & Ohman, 2003; Zeithaml et al., 1996; Zhang et al., 2011). Various researchers have studied several factors which mostly impact customer retention in the Life insurance sector.

A study by Hussen (2015) found that Customer retention mainly depend on the service quality offered by insurance company to the customers. Customer retention significantly increase if customer get better service quality (Ranaweera & Neely, 2003). Further, this study has also been supported by the study of several researchers and concluded that customer loyalty, service quality, and customer satisfaction impact on retaining customers in the life insurance sector (Ismail et al., 2017; Rawat & Kumar, 2017b; Venkatesan & Jacob, 2019).

#### **2.2.4 The Link between Service Quality and Customer Satisfaction**

Customer satisfaction precedes service quality, while service quality precedes customer satisfaction (Bitner, 1990). Thus, in today's competitive market, the quality of services and accomplishment of customer satisfaction are the main requirements for the existence of any corporate organization.

Various researchers have claimed that service quality factors positively influenced the customer satisfaction (Adhikari, 2021; Ghimire & Khanal, 2019; Lau et al., 2013; Maharjan, 2014; Myo et al., 2019; Shah et al., 2018; Shrestha, 2018). Similarly, Sari et al. (2020) ; Shah et al. (2018) observed that level of customer satisfaction is significantly influenced by the service quality that is offered to them.

The study by Naik et al. (2010) found positive correlation between customer satisfaction and service quality factors. Further, it highlighted that employing all five service quality dimensions increases customer satisfaction. At the same time, the study of Naik et al. (2010) claimed that promptness is one of the most important factor of service quality that contribute to customer satisfaction.

A study by Gorji et al. (2011) states that customer satisfaction is mainly influenced by the reliability and guarantee factors of service quality. The study of Khan & Fasih (2014) claimed that among various dimensions of service quality, customers focus more on the reliability, assurance, and tangibility, which are found to have significance and a positive relationship with customer satisfaction. This finding was further supported by the study of Das & Jannat (2018). Moreover, Ramamoorthy et al. (2018) identified that responsiveness and reliability are the key dimensions of service quality that significantly impact customer satisfaction in the Life insurance sector.

Demong et al. (2018) defined responsiveness as the timely reaction toward the customer's need and had claimed it as a significant dimension of service quality that positively affects the customers satisfaction. Similarly, Khan (2010) concluded to have a positive relationship between responsiveness and customer satisfaction.

Van Iwaarden et al. (2003) defined assurance as the knowledge and courtesy of an employee's towards their customers and their problems and firm's ability to generate

trust and confidence in the customers. It is positively related to customer satisfaction (Asubonteng et al., 1996; Munusamy et al., 2010).

Empathy includes the care and attention that firms offers to their individual customers. Empathy can ultimately change customers' behavior, which significantly influences customer satisfaction (Nor et al., 2010). According to Iglesias & Guillén (2004), empathy and customer satisfaction are positively and significantly related to each other. However, Ishfaq et al. (2010) found empathy to have a significant but negative relationship with customer satisfaction.

Goswami (2007) highlighted that tangibles factor such as physical facilities, equipment, and personnel appearance of the company positively influence customer satisfaction. On the other hand, Tsoukatos & Rand (2006) claimed that customer satisfaction is not affected by tangible dimensions; instead, customer repurchasing and satisfaction are the antecedent of intangible dimension.

Chawla & Singh (2008) found that accessibility has greater mean satisfaction than reliability and assurance factors in the life insurance sector. Paposa et al. (2019) identified that reliability, responsiveness, assurance, tangibility, and technology dimensions of service quality directly and significantly impact the customers' overall satisfaction of the customer's Life insurance industry. Moreover, two most important demographic variables including age and occupation significantly affect the perception of overall service quality. Furthermore, Niroshini & Niranjika (2020) revealed that the most influential dimensions contributing to customer satisfaction are tangibility, responsiveness, assurance, and empathy. Thus, the continuous improvement in service quality dimensions is required to increase satisfaction levels of customers in the service sectors.

### **2.2.5 Review of the effect of Service Quality on Customer Retention**

The company's success depends on the quality of service provided to the customer. Also, service quality is the major marketing instrument and it has close conceptual and empirical link with the customer satisfaction (Bolton et al., 2000; Fisk et al., 1995). In addition, service quality is positively linked with behavioral intention (Fornell, 1992).

Service quality directly or indirectly influences the customer retention: firstly, by the fact that offering better service quality attract customers and force them to repurchase from the same company; and secondly, by the view that each dimensions of service quality has a potential role for a customer satisfaction which impact on their retention. In addition, Customer retention motivates for long-term commitment which helps to maintain the relationship between service providers and the customers.

Different authors have investigated the effect of service quality on the retention of customers in service sectors. For example, the study by Nsiah & A Mensah (2014) found that offering service quality positively impacts overall customer retention. The study was done with 100 responses from customers and 20 from employees of the Rural Bank Limited of Asokore, Ghana. It has used five dimensions of the SERVPERF (Service quality) model. Among them, empathy and responsiveness have the major effect in customer retention, followed by tangibility, assurance, and the reliability dimension of service quality. The research also found that providing better-quality service raises customer retention, leading to a high level of customer commitment and loyalty. Further, this result is consistent with the study Ranaweera & Neely (2003) in the telephone (service) industry in the UK and Venetis & Ghauri (2004) in the advertising sector in Europe. In addition, to retain customers, researchers suggested that companies must focus more on being empathetic and responsive in their service delivery.

### **2.2.6 Customer Satisfaction and Customer Retention**

Retaining customers always cost less and also led to different marketing gains. In a report, the American Society for Quality and Arthur Anderson Consulting Inc., 1977 claimed that getting a new customer is five times more expensive than keeping an old one. Further, Reichheld & Sasser (1990) found that retaining just 5 percent more customers by companies leads to an increase in its profits by 25 percent to 85 percent depending on the industry. In addition, Healy (1999) found that reducing customer defection by 5% leads to increment in profit by 100%. Hence, primary strategy of a company must be retaining its customers by satisfying them with good quality products and services.

According to Kotler (1994), “Customer Satisfaction is the key for customer retention”. Customer Satisfaction has been considered as the driver of a higher customer retention rate (Parasuraman et al.,1991). A satisfied consumer purchases the goods again and promotes the good qualities of the product and service provider. Dispensa (1997) found that satisfied customers buy the product more often and also urge others to try that product. Oliver (1980) highlighted that a high customer satisfaction made the brand attitude more favorable, which motivates customers to repurchase the brand and retain to a particular company.

Customer Satisfaction directly affect Customer Retention and the company’s market share, hence Satisfying the needs and desire of customers is the major goal of every business organization (Hansemark & Albinsson, 2004). It is challenging to identify a satisfied customer because it depends on the consumer's mindset and how they feel. However, if company knows that whether customers are satisfied with their product or not, then they can able to retain customers for the longer term by providing better services. Thus, success of industry can be achieved by monitoring customer satisfaction (Crosby & Stephens, 1987; Eggert & Ulaga, 2002).

### **2.2.7 Service quality, Customer satisfaction, and Customer retention**

Service quality and customer satisfaction are viewed as an important factors in retaining customers and gaining success in the service business (Hartono & Raharjo, 2015). The study by A Parasuraman et al. (1991) and Cronin Jr & Taylor (1994) found that service quality is the major factors for the customer satisfaction. Customers feel satisfied or dissatisfied towards perceived service quality, which found to have a positive link with Customer Retention (Hocutt & Stone, 1998). Furthermore, Zeithaml et al. (2006) postulated that if the customers are satisfied with the organization's services, it will definitely lead to retention of the customers, which result in higher profit, higher market shares, and increase customer base of an organization.

Failure to retain policyholders in life insurance companies results in the insurance expiring or the consumer switching to another company. Thus, insurance service providers always need to provide quality service to satisfy and retain their customers. In the past, many scholars have used the variable service quality and customer satisfaction to study their effect on customer retention towards company’s products

and services in service sectors, including Hotel, Medical field, and financial, banking and insurance sectors (Flores et al., 2020; Olorunniwo et al., 2006; Ramamoorthy et al., 2018; Venetis & Ghauri, 2004). However, in the Nepalese Life insurance sector, very few studies have been conducted.

The study of Rawat & Kumar (2017b) found positive effect of service quality on customer satisfaction and customer retention in Indian life insurance industry. It has used the SERVQUAL model to measure service quality and implements the PLS-SEM model to test the developed hypothesis.

In the Malaysian insurance industry, reliability and responsiveness has been found as a key dimensions of service quality and also stated that reliable and responsive customer support has significant positive impacts on customer satisfaction and retention. Further, it was also supported by the study done by Ramamoorthy et al. (2018) on Indian Life Insurance companies. They also confirmed that reliability and responsiveness are the major factors of service quality. Further, it also emphasized how customer satisfaction and service quality have a positive impact on behavioral intention (urge to recommend, switching intentions, and repurchase intentions) thus, increasing customer retention. While technical quality has no impact and price has a significant negative influence on customer satisfaction.

Further, it has used the Modified SERVQUAL instrument to measure the service quality and the Structural equation model (SEM) technique to estimate the proposed hypothesized relationships. The study of Ismail et al. (2017) investigates the relationship between service quality and behavioral intention with mediating effect of customer satisfaction at army medical organizations in Malaysia. It has used confirmatory factor analysis to determine the validity and reliability of the instrument and also employed Smart-PLS to evaluate the survey questionnaire data and test the developed hypothesis. It has confirmed that service qualities dimensions with customer satisfaction was positively correlated with behavioral intentions. Further, it has also indicated that customer satisfaction plays the mediating role between service quality dimension and customer retention.

Yap & Kew (2007) examined the relationship between service quality, customer satisfaction, and customer's retention in the restaurant industry. The data were

collected based on a structured questionnaire and used the SPSS Windows Version 13 to analyze collected data. It has revealed that service quality and customer satisfaction significantly affect the customers' retention.

Maladi et al. (2019) investigated on how switching barriers, company image, and service quality affected customer satisfaction and retention. The framework was tested using the method of structural equation modeling, and the data was analyzed using the AMOS (Analysis Moment of Structure) tool. The findings showed that customer retention is significantly impacted by customer satisfaction. Additionally, it has been argued that the switching barrier needs to be reduced while maintaining service quality, company image, and customer satisfaction.

Ishfaq et al. (2010) found that positive relationship between service quality and customer retention in the Telecom industry in Pakistan. Further, it claimed that the indirect effect of the service quality dimensions on the repurchase intention, through the mediating variable (Customer satisfaction), is much higher than the direct effect on the repurchase intention. It has collected data from 331 young mobile users of Pakistan and used SPSS 16.0 version software and done multiple regression analysis and Sobel test to check the developed hypothesis.

Olorunniwo et al. (2006) examined the direct and indirect impact of service quality on the Behavioral intention of customers of Service industries in the US. It has been found that the indirect effect of SQ (with CS playing a mediating role) is a stronger driver for Behavioral intention including customer retention in service factories and the direct effect of service quality dimensions of the SERVPERF model on Behavioral Intention is also significant. The study used SEM, and CFA was used to test the validity (convergent and discriminant) and reliability of the data. SAS (version 8.2) software was used to analyze the data.

The study by Venkatesan & Jacob (2019) found that there is a significant positive association between customer satisfaction, customer loyalty, and customer retention. Authors Suggested that insurance company always needs to know those factors which affect the satisfaction level of their customers. The author also claims that company can retain their customers only if their customers are loyal to the company's products and services, and customers will be loyal only if they are satisfied with the perceived

facilities of the company. Finally, the author highlighted that to get success; the company needs to understand what quality of services they need to offer to satisfy and retain their customer for the long term.

Table 2.1

*Summary of Key Article Reviewed*

<b>S.N</b>	<b>Author (s)</b>	<b>Variable Used</b>	<b>Methodology</b>	<b>Findings</b>
1.	Ramamoorthy et al. (2018)	Dependent variable: Behavioral intention Mediating variable: Customer satisfaction  Independent variable: Service quality Technical quality Price factor	Modified SERVQUAL instrument has been used. SEM technique via AMOS software has been used to obtain the results. EFA and CFA has been done.  Sample of the study- 220 policyholders of life insurance.  Probability sampling procedures via a random sampling method was used.	Reliability and responsiveness are the major dimensions of service quality which significantly impact on customer satisfaction. Service quality and Customer satisfaction have a significant positive impact on behavioral intentions. Customer satisfaction negatively affected by price but not influenced by technical quality.

2.	Venkatesan & Jacob (2019)	Independent variable: Customer satisfaction, Mediating variable: customer loyalty, Dependent variable: Customer Retention	Validity and reliability of data was tested through SmartPLS 3 and AMOS was used to obtain the results. Sobel test was applied to evaluate the mediation effect of customer loyalty between customer satisfaction and customer retention of life-insurance companys Tamilnadu India.	Customer retention is found to have a significance relationship between customer satisfaction and customer loyalty. It claimed that customer loyalty plays a mediating role between customer satisfaction and their retention.
3.	Nsiah & A Mensah (2014)	Independent Variables: Assurance, Reliability, Tangibles, Empathy, Responsiveness Dependent Variables: Customer satisfaction Customer Retention.	Five dimensions of SERVPERF (service quality) model has been used. Convenient sampling procedure was used. Data were collected from 100 customers and 20 employees of Rural Bank of Asokore, Ghana. Regression analysis was done to investigate the relationship between dependent and independent variables.	Better service quality has a significant positive impact on customer retention. Empathy and responsiveness dimensions of service quality have a greatest influence on customer retention which is followed by tangibility,

assurance, and reliability. Providing better service quality raises customer retention, which in turn leads to raise level of customer commitment and loyalty.

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4.	Paposa et al. (2019)	Reliability Responsiveness Assurance Empathy Tangibility Technology Customer Satisfaction Demographic variables like gender, age, occupation, income group, education, and marital status	Five dimensions of SERVPERF Model has been employed. Principal Component Analysis, Factor analysis was done to test validity and reliability of the instrument. Multiple regression was used to test the hypothesis. 383 life insurance policyholders of Durg district, Chhattisgarh were sample for the study.	Reliability, assurance, tangibility, and technology directly and significantly impact the level of customer satisfaction. Age and occupation are two crucial demographic factors which impact on how people perceive the quality of services generally in the insurance sector.
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5.	Ishfaq et al. (2010)	Tangible Empathy Assurance Responsiveness Reliability Satisfaction Repurchase intention	SERVQUAL model was used. 331 young mobile users of Pakistan were sample. Correlation and regression analysis were done. Uses Microsoft Excel 2007 and SPSS 16.0. SOBEL was used to test the mediating relationships.	Satisfaction strongly mediates a link between service quality dimensions and customer repurchase intentions. The indirect effect of the service quality dimensions through customer satisfaction is much higher than the direct effect on the repurchase intention.
6.	Hartono & Raharjo (2015)	Service quality, customer satisfaction, and customer loyalty.	Sample collected from 102 respondents from 24 hotel (three-star and five star hotel). Uses CFA to test models, namely model without mediation, with one mediator and with two mediators.	Customer satisfaction partially mediate the relationship between service quality and loyalty.

7.	Maladi et al. (2019)	Service quality Corporate image Switching Barrier Customer Satisfaction Customer retention	Quantitative research with explanatory research approach. Uses SEM technique to test the framework and AMOS program to analyze the collected data. 141 students of informal education institution of Kalimantan, Indonesia were sample for the study.	Quality of service has been dominated by empathy dimension. Customer satisfaction has a major effect on customer retention. Service quality has substantial effect on customer retention and customer satisfaction. Corporate image positively influences customer satisfaction.
8.	Yap & Kew (2007)	Service Quality Customer Satisfaction Re-patronage Intentions	Uses structured questionnaire to collect data from 420 regular customers of family restaurants of Malaysia. Uses SPSS (Version 13) software and tested hypothesis through Pearson correlation and Multiple regression analysis.	Service quality and customer satisfaction positively influence customer's re- patronage intentions. Customer satisfaction found as a stronger

				predictor of customer's re-patronage intention than service quality.
9.	Olorunniwo et al. (2006)	Tangibles Responsiveness Knowledge Recovery Customer satisfaction Behavioral intentions	Uses SERVPERF Model of Service quality. SEM and CFA were done to test validity and reliability of data. SAS (version 8.2) was used to analyze the data. Convenience sampling procedure was used.	Direct effect of SQ on BI is significant. Indirect effect (with CS playing a mediating role) on Behavioral intention is higher than that of direct effect.
10.	Mahmood et al. (2018)	Tangibility Reliability Responsiveness Assurance Empathy Customer Satisfaction Customer loyalty	Sample of the study- 479 customers of eight banks of Pakistan. Self-administered questionnaire and SERVQUAL model were used. Regression analysis, and PROCESS technique were done to test the hypothesis.	All the dimensions of service quality found to have a significant positive and moderate to strong impact on customer satisfaction and loyalty. Increase in satisfaction increases customer loyalty thus, raises customer retention.

11.	Upadhyay & Adhikari (2021)	Reliability Responsiveness Assurance Empathy Tangibles Customer satisfaction Firm Performance	Uses SERVQUAL model of service quality. Causal-comparative research has been used. Used structured, self-administered questionnaire based on convenience sampling. 350 policyholders of 19 life insurance companies of Nepal were sample. It uses multiple regression models.	All the dimensions of SQ have a significant positive impact on customer satisfaction and firm performance. Responsiveness has highest positive correlation and assurance demonstrates least positive correlation with customer satisfaction and performance in terms of ROA.
12.	Ismail et al. (2017)	Tangibility Reliability Responsiveness Assurance Empathy Customer satisfaction Behavioral intention	CFA has been done to determine validity and reliability of instrument. Path analysis has been used. Smart-PLS has been used to evaluate data and test the developed hypothesis. Data were collected through cross-sectional technique from army medical organizations of Malaysia.	Relationship between service qualities features with customer satisfaction were positively and significantly correlated with behavioral intentions. Confirmed that customer satisfaction plays the mediating role

				between service quality and behavioral intentions
13.	Sari et al. (2018)	Tangibility Reliability Responsiveness Assurance Empathy Customer satisfaction commitment Customer retention	Partial Least Square (PLS) has been used. SPSS and SmartPLS 3.0. software has been used to test the collected data and analyse the developed hypothesis. Purposive sampling has been used to collect data.	Service quality dimensions have significant positive impact on customer retention through customer satisfaction. Customer satisfaction fully mediates on relationship between service quality and customer retention. However, commitment do not act as a mediator among them.

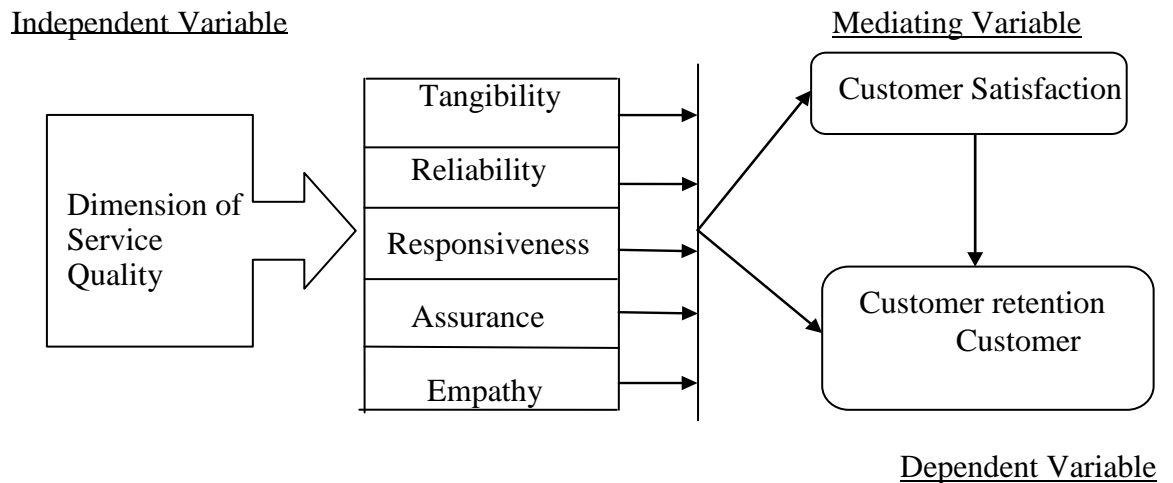
### 2.3 Theoretical Framework

Regarding service quality, customer satisfaction, and customer retention, various researchers have done research in the international context. They show that the impact of service quality dimensions which includes firm's physical and virtual facilities, privacy and security of customer's information, politeness, individual care and attention, and eager to listen customer needs and complaints leads to satisfy and retain customers. Further, the theoretical framework shows the SERVPERF dimensions of

service quality and its impact on customer satisfaction and retention, which is shown in the following figure:

Figure 2.1

*Theoretical Framework*



(Source: Adapted from (Fida et al., 2020); (Fachmi, Moddling, & Kamase, 2020); (Maladi et al., 2019))

**2.4 Operational Definition**

The explanatory variables to measure insurer’s service quality are tangibility, reliability, responsiveness, assurance, and empathy. The dependent variable is customer retention, and mediating variable is customer satisfaction.

**2.4.1 Service Quality Dimensions:**

Paposa et al. (2019) indicated that service quality of service industries, including insurance companies, should be measured based on the SERVPERF model, a performance-based scale, with the following five variables:

**Tangibility** – “Measures the appearance of the employees' physical facilities and equipment”.

**Reliability** – “Measures the organization's capacity to comply with what is promised and do so without error”.

**Responsiveness** – “Measures the employees’ ability in taking orders, delivering services, and addressing the customers’ needs and complaints in a timely manner”.

**Assurance** – “Measures the knowledge and courtesy of the employees and their ability to inspire trust”.

**Empathy** – “Measures the care and attention of employees to individual customer in providing required information, and also measures the capacity to listen and understand needs and desire of customers”.

#### **2.4.2 Customer Satisfaction**

The Customer will be satisfied if the service performance meets their needs and wants. Therefore, customer satisfaction is a mediating variable for the study. Since various past studies have taken customer satisfaction as mediating variable to show the relationship between Service quality and customer retention, so do this framework and study (Ishfaq et al., 2010; Ismail et al., 2017; Olorunniwo et al., 2006; Ramamoorthy et al., 2018).

#### **2.4.3 Customer Retention**

The dependent variable here is customer retention. The retention of customers in insurance companies depends upon the service quality offered to them. In the framework, it is shown that customer retention is directly (SQ-> CR) and indirectly (SQ->CS->CR) influenced by service quality.

## **CHAPTER III**

### **RESEARCH METHODS**

This chapter contains information on the approach taken to close the research gap and achieve the study's goals. This chapter outlines the research methods used to determine the impact of Service quality dimensions on customer satisfaction and customer retention in the context of life insurance firms in the Kathmandu Valley. The population, sample, source, and type of the data, the instrumentation, the method used for data analysis, and the validity and reliability of the instrument utilized are all included in this section. It essentially summarizes the operating procedure used for this study's purposes.

#### **3.1 Research Design**

This study's main goal is to investigate the effects of service quality on customer satisfaction and customer retention as well as the mediating role that customer satisfaction plays in the relationship between service quality and customers' retention with Nepalese life insurance companies. The scope of the target population, the research question, and the study's objectives are all considered. In order to investigate the effects of service quality on customer satisfaction and customer retention, a quantitative technique was used in this study.

A descriptive research design was used to examine the possible impact of Service quality factors on Customer Retention and Customer Satisfaction. Similarly, a casual research design was employed to examine the mediating effect of customer satisfaction in the link between service quality dimensions and Customer retention of the life insurance companies of Kathmandu Valley.

#### **3.2 Selection of the Location**

This study was done in the life insurance companies within the Kathmandu Valley. Basically, Kathmandu Valley is home to every branch of all the life insurance companies in Nepal, thus, making it a good representation of the firms' level of service quality, customer satisfaction and customer retention. As a result, the entire life insurance companies in the Kathmandu Valley serves as the target population and study area for this research.

### 3.3 Population and Sample

The population of this study consisted of all the customers of the life insurance companies of Kathmandu Valley. Since the population was unlimited in nature, researcher employed two-stage sampling for this research. In the initial stage, researcher select a sample randomly from five life insurance companies. As per Nepal Rastra Bank (2021), there is a total of 19 life insurance companies. Out of total, researcher selected top five (about 25% of 19) life insurance companies based in terms of business volume generated over the years (Dhungana, R., 2020). The selected companies are Nepal Life Insurance (NLIC), National Life Insurance (NLICL), Asian Life Insurance (ALICL), Rastriya Beema Sasthan (RBS), and Surya Life insurance company limited (SLICL).

In the second stage, a researcher employed stratified random sampling to ensure that the sampled selected respondents were customers of selected Life insurance companies of Nepal. Further, Minor customers, or those under the age of 18, were also excluded from the sample frame.

A sample of 280 respondents was considered for the study. This study included a sample of 280 respondents. Based on the suggestions of the authors, a sample of 280 respondents to a 28-item questionnaire with ten samples for each item was used in this study (Arrindell & Van der Ende, 1985; Nunnally, 1978).

The detailed lists of sample collections are shown in table 3.1.

Table 3.1

*List of Sample from the Nepalese Life Insurance Companies*

Life insurance companies	N	%
Nepal Life Insurance (NLIC)	70	25
National Life Insurance (NLICL)	80	28.57
Asian Life Insurance (ALICL)	36	12.86
Rastriya Beema Sasthan (RBS)	69	24.64
Surya Life insurance company limited (SLICL)	25	0.92
Total	280	100%

*Source: Survey Data (2022)*

### **3.4 Instrumentation**

The data collection is aided by the administration of the structured questionnaire, which has been adapted from various works of literature. The questionnaire contains both closed-ended and Likert scale-based items. The first part of the questionnaire comprises demographic-related questions relating to the gender, age, permanent residence of the respondent, Education, profession, name, and the number of life insurance owned, and in the second part Seven-point Likert scale would have opted for the preparation of the questionnaire for various constructs relating to the service quality including tangibility, reliability, responsiveness, assurance, and empathy, customer satisfaction and customer retention.

Before testing questionnaires, expert group of National Life insurance companies works to ensure that the wording, format, length, and sequencing of questions are adequate and appropriate. Feedback was obtained from policyholders, agents, and branch managers to refine the survey instruments. All statements were carefully reform considering the insurance environment. All the items scale in the study were measured on a seven-point Likert-type scale using the following instruments adapted from various researchers:

**Service Quality Scale:** In order to measure service quality dimensions, 22 item scale questionnaire was adopted from the SERVERF questionnaire developed by (Cronin Jr & Taylor, 1994). Under it, the questionnaire consisted of 22 items, including four items for tangibles, five items for reliability, four items for responsiveness, four items for assurance, and five items to capture empathy.

**Customer satisfaction scale:** Customer satisfaction used a two-item, scale prescribed by (Venkatesan & Jacob, 2019).

**Customer retention scale:** Customer retention was taken as the dependent variable in this study. The researcher used the four-item retention scale from Eggert & Ulaga (2002).

Moreover, the conceptual framework of this study is adapted from the study of Fida et al. (2020) the service sector in Oman.

### **3.5 Sources and Methods of Data Collection**

The primary source of the data would be used for the purpose of data collection using the structured questionnaire to fill the research objective. Data was collected by sending the online questionnaire using google forms to the customer of the various life insurance companies in Kathmandu using the mail. All the responses are recorded electronically.

### **3.6 Data Management**

Microsoft Excel is used to tabulate, categorize, and code the obtained data and SmartPLS 3 are used to analyze it. Demographic analyses and descriptive analysis were performed using MS excel. Additionally, further data analysis, i.e., PLS-SEM, path analysis, bootstrapping for hypothesis testing, convergent reliability, discriminant validity, and cross-loading was done using SMART-PLS.

### **3.7 Face Validity**

Some people view face validity as the most fundamental and minimal indicator of content validity (Sekaran & Bougie, 2010). Before conducting the pilot test for the study, face validity was performed to evaluate the content validity of the questionnaire; with a face validity questionnaire sent to the expert of the life insurance company, 10-12 experts can give enough good recommendations for performing the face validity (Desai & Patel, 2020). The questionnaire was sent to 10 respondents and found to have a more than 90% of acceptance rate. Desai & Patel (2020) suggested retaining the questionnaire if researchers get above 90% of acceptance rate in a pilot test.

### **3.8 Pilot Testing**

Prior to the distribution of the questionnaire to the target population, pilot testing was done to assess the consistency and reliability of the study's constructs. A structured online questionnaire was sent to consumers of life insurance companies in the Kathmandu valley as part of a pilot study.

Nunnally (1978) stated that 30 responses were sufficient to do the reliability analysis because the major goal of the pilot study was not to draw conclusions from its

findings. For this study, total of 50 responses were obtained from the various respondents to know test reliability of the data. Few changes were made to the questionnaire based on the results prior to the distribution of the questionnaire.

### **3.9 Data Analysis**

This study uses a variety of descriptive and inferential statistical approaches to examine the data.

For the purpose of analysis, Microsoft excel and SMART PLS software were employed.

Descriptive analyses was performed using Microsoft excel. In a similar manner Partial Least Square Structural Equation Model (PLS-SEM) was used to test validity and reliability of proposed theoretical framework and to test the developed hypothesis. Structural equation model was used for this study because this model make ease in measuring both reflective and formative construct. Further, (R. Ramamoorthy et al., 2016 ) has suggested Structural equation model is an appropriate approach to examine the effect of service quality on customer retention with mediating variable customer satisfaction in life insurance sector. PLS-SEM was hence used for this study using Smart PLS 3.0.

#### **3.9.1 Descriptive Analysis**

The characteristics of the data were described using descriptive statistics. Frequency, mean, percentage, and standard deviation are used to characterize the data's properties. Profiles of respondents were generated using frequency and percentage. Mean and standard deviation were employed to evaluate the level of service quality, customer satisfaction, and customer retention.

#### **3.9.2 PLS-SEM Analysis**

PLS-SEM (Partial Least Square Structural Equation Modelling) is one of the types of Structural Equation Modelling (SEM) which is utilized in many fields, including operation management, strategic management, marketing, and many others. The PLS-SEM approach has a number of advantages over the CB-SEM approach, including less constraint on sample size, flexibility with non-normal data, ease of measurement

of both reflective and formative constructs, and maximization of the explained variance of the dependent variables. PLS-SEM was hence used for this study.

The evaluation procedure used a two-stage process, consisting of a measurement model and a structural model. Reflective and formative measurement was used for the measurement model. After the measurement model, structural model was utilized to test the hypothesis developed based on a conceptual framework and several literatures. Further, bootstrapping analysis was done to test the direct relationship between the independent variable (customer satisfaction) and dependent variable (service quality), as well as indirect effect was used to examine the mediating effect of customer satisfaction between Service quality and Customer retention.

### **3.9.3 Reliability and Validity**

When an instrument is reliable, it consistently generates stable, reliable, and error-free results throughout a variety of trials, ensuring that the results are steady and do not change over time (John & Bougie, 2016). The reliability analysis for this study was determined by looking at Cronbach's alpha because Cronbach's alpha is supposed as an ideal tool to measure internal consistency reliability. The range of 0.7 to 0.9 was regarded as the appropriate alpha coefficient value for good research. A lower Cronbach alpha value indicates that there are fewer constructs or that there is poor intercorrelation between the constructs in an instrument. Similar to this, a higher score of Cronbach alpha indicates the redundancy of measuring the same concept again.

Similar to that, validity is the most important criterion that indicates how well an instrument captures the desired outcome (Kothari, 2004). There are two different methods to measure the validity: construct validity and content validity. Content validity define the theoretical applicability of the construct reflection and its consistency with the relevant body of literature. For the purpose of this research, both convergent validity and divergent validity were tested.

## CHAPTER IV

### ANALYSIS AND RESULTS

This chapter is based on the analysis and interpretation of the information gathered during the study to identify its objectives. The goal of the data analysis and interpretation is to generate insightful conclusions and suggestions. This section shows the summary, analysis, and interpretation of the gathered data employing the various analysis techniques explained before. In this section, the demographic variables are descriptively analyzed using a number of tables, and the PLS-SEM analysis is also used to test the hypothesis. The data obtained from the customers of five life insurance firms in the Kathmandu Valley is analyzed and interpreted using a suitable statistical tool.

#### 4.1 Demographic Profile of Respondents

The demographic profile of the respondents is based on gender, age group, level of education, profession, name, and the number of life insurance owned.

Table 4.1

*Demographic Characteristics of the respondents*

		Frequency	Percentage
Gender	Male	159	56.78
	Female	116	41.43
	Prefer not to say	5	1.79
Age	18-28	32	11.43
	29-39	108	38.57
	40-49	91	32.5
	50 years and above	49	17.5
Education	SLC	3	1.07
	+2	10	3.57
	Bachelor	103	36.78
	Masters and above	164	58.57
	Student	28	10
	Self-employed	43	15.36

Profession	Government service	84	30
	Private job	92	32.86
	Business man/women	33	11.79
Types of policy taken	Whole life insurance plan	92	32.86
	Endowment assurance plan	76	27.14
	Term assurance plans	36	12.86
	Children plans	60	21.43
	Anticipated plan	12	4.28
	Retirement plans	4	1.43
	Number of policies owned	1	219
	2	52	18.57
	3	8	2.86
	More than 3	1	0.36

*Source: Survey Data (2022)*

Table 4.1 depicts the demographic information of the customers of the life insurance company of Kathmandu Valley. Demographic characteristics of the 280 respondents were categorized in terms of gender, age group, education level, profession, Types, and the number of the policy owned by the respondents.

The frequency distribution of 280 respondents reveals that male respondents outnumbered female respondents, which constituted 159 (56.78%) of the total respondents. Similarly, the results show that 38.57% of respondents fall into the age range of 29 to 39, followed by 32.5% in the 40 to 49 age group, 17.5% in the 50+ age group, and 11.43% in the 18 to 28 age group.

In terms of education, 3 (1.07%) of the respondents have the highest education level of the SLC, 10 (3.57%) have the +2 degree, 103 (36.78%) have a bachelor's degree, and 164 (58.57%) have the education level of Masters and above, indicating that the majority of the respondents have educational qualification of masters and above degree.

Also, out of the total valid respondents, 28 (10 %) respondents are students, 43 (15.36%) respondents are self-employed, 84 (30%) respondents are Government service providers, 92 (32.86%) respondents are private job holders, and 33 (11.79) respondents are Businessman/women which reflects that majority of the respondents are private job holders followed by government service providers.

Among different available life insurance policies, 92 (32.86%), 76 (27.14%), 36 (12.86%), 60 (21.43%), 12(4.28%), and 4 (1.43%) respondents have taken whole life insurance plans, endowment assurance plans, term assurance plans, children plans, anticipated plans, and retirement plans respectively. In addition, out of the total respondents, 219 (78.21%) respondents have owned only one policy, 52 (18.57%) respondents have owned two policies, 8 (2.86%) respondents have owned three policies, and 1 (0.36%) respondent has owned more than three life insurance policies.

## 4.2 Status of Service Quality in Nepalese Life Insurance Companies

This status contains the descriptive statistics of various dimensions of Service quality including Tangibility, Reliability, Responsiveness, Assurance and Empathy.

### 4.2.1 Tangibility

Descriptive statistics of the tangibility is given as below:

Table 4.2

#### *Descriptive analysis of Tangibility*

Statement	Min	Mean	Max	Standard
				Deviation
My life insurance company uses modern equipment and technology.	3	4.65	6	1.11
My life Insurer's offices are visually attractive.	3	4.69	7	1.133
My life insurers and agents are neat and well appeared	2	4.98	7	1.012
Service-related materials used by company are visually appealing.	2	4.67	7	1.215
Overall score of tangibility	2.5	4.764	6.75	1.114

*Source: Survey Data (2022)*

Tangibility was measured with four items adapted from the literatures (Cronin Jr & Taylor, 1994) and (Kumari et al., 2012).

Table 4.2 depicts the overall mean scores of 4.76 with Standard Deviation of 1.114 reflecting the moderate level of Tangibility. Similarly, the statement “My life insurance company uses modern equipment and technology” gets the lowest mean score when compared to all other statements, which indicates that the Kathmandu valley's residents are uninformed of the tools and methods that the company has incorporated.

#### 4.2.2 Reliability

The descriptive statistic of Reliability is given as below:

Table 4.3

*Descriptive analysis of Reliability*

Statement	Min	Mean	Max	Standard Deviation
My insurer provides services as they promised to me.	2	4.83	7	1.101
My insurer solves my problems with sincere interest.	3	4.71	7	1.129
My life insurer offers its services right first time without discomforting me.	2	4.78	7	1.091
My life insurer offers services within the specified contract time limit.	3	4.84	6	1.169
My life insurer provides error free bills, statements, receipts, and other documents.	3	4.89	7	1.043
Overall score of reliability	2.6	4.81	6.8	1.106

*Source: Survey Data (2022)*

Reliability was measured by five items adopted from Cronin Jr & Taylor (1994) and Kumari et al. (2012) literature. Descriptive statistics of the reliability have a mean

score of 4.81 (S.D= 1.106), indicating a moderate level of reliability. It has the highest mean value of 4.89 (S.D 1.043) for the statement “My life insurer issues error-free bills, statements, receipts, contracts, claims and other documents,” which indicates that life insurers do fair transactions with their customers.

### 4.2.3 Responsiveness

The descriptive statistic of Responsiveness is given as below:

Table 4.4

*Descriptive analysis of Responsiveness*

Statement	Min	Mean	Max	Standard Deviation
My life insurer informs me exactly about when the service will be delivered.	3	4.864	7	1.062
My life insurer provides prompt service to me.	3	4.782	7	1.064
My life insurers are always willing to help me, whenever I required.	3	4.921	6	0.965
Employees of life insurance company always respond to my request.	3	4.853	7	1.063
Overall score of responsiveness	3	4.855	6.75	1.038

*Source: Survey Data (2022)*

Descriptive statistics for the overall responsiveness have a mean score of 4.85 (S.D=1.04), indicating moderate agreeableness on the responsiveness dimension in the context of service quality. It has the greatest mean value of 4.92 (S.D=0.965) for the statement "My life insurers are always willing to help me, whenever I required," which indicates that life insurers are reducing the problems of customers by Providing services whenever they need them.

#### 4.2.4 Assurance

The descriptive statistic of Assurance is given as below:

Table 4.5

*Descriptive analysis of Assurance*

Statement	Min	Mean	Max	Standard Deviation
Employees of life insurance company instill confidence to me.	2	4.85	7	1.043
I feel safe while performing transactions for the insurance products.	3	4.89	7	1.084
Life insurer consistently deal with me in polite manner.	2	4.44	7	0.973
Service providers have necessary knowledge to give professional service to customers.	3	4.83	7	1.161
Overall score of assurance	2.5	4.75	7	1.065

*Source: Survey Data (2022)*

Assurance was measured by four items adopted from J.J. Cronin and S.A. Taylor, (1994) and Khurana, (2012) literatures. Descriptive statistics of assurance have an overall mean score of 4.75 (S.D =1.065), indicating a moderate level of assurance. It has the lowest mean value of 4.44 (S.D = 0.973) for the statement “Life insurer consistently deal with me in a polite manner,” which indicates that life insurer does not deal nicely and respectfully with every customer.

#### 4.2.5 Empathy

Table 4.6

*Descriptive analysis of Empathy*

Statement	Min	Mean	Max	Standard Deviation
I receive individualized care from my life insurer.	3	4.85	6	1.032
My life insurer deals with me in a caring manner.	3	4.87	7	1.119
The best interests of the customers come first for my life insurers.	3	4.86	7	1.087
My life insurer understands my needs.	3	4.75	7	1.218
Operating hours provides by insurance company is convenient to me.	3	5.13	7	1.050
Overall score of empathy	3	4.88	6.8	1.101

*Source: Survey Data (2022)*

Descriptive statistics for Empathy have an overall mean score of 4.88 (S.D=1.101), indicating moderate agreeableness on the empathy dimension of service quality. It has the highest mean value of 5.13 (S.D =1.050) for the statement “Operating hours provides by the insurance company is convenient to me,” which indicates that life insurance companies are providing the services to their customers at the best time. The lowest value of the mean (M=4.75 & S.D=1.218) was for “My life insurers understand my needs,” reflecting that life insurance customers are unsure about whether life insurers understand their needs or not.

### 4.3 Status of Customer Satisfaction in Nepalese Life Insurance Company

Table 4.7

*Descriptive analysis of Customer Satisfaction*

Statement	Min	Mean	Max	Standard Deviation
I am happy with the quality of services offered by my life insurers.	3	4.89	7	1.116
My decision to use this company's services was a good one.	2	4.67	6	1.138
Overall score of CS	2.5	4.78	6.5	1.127

*Source: Survey Data (2022)*

Customer satisfaction is measured by two items adopted from the literature of Venkatesan & Jacob (2019). Descriptive statistics for the overall customer satisfaction have a mean score of 4.78 (S.D =1.127), indicating a moderate level of satisfaction. It has the highest mean value of 4.89 (S.D = 1.116) for the statement “I am happy with the quality of services offered by my life insurers.” The lowest mean value of 4.67 (S.D = 1.138) for the statement “My decision to use this company's services was a good one” reflects that the customers are on a lower degree of agreeance on the satisfaction regarding service quality provided by a life insurance company to them. Furthermore, it reflects that customers are moderately satisfied with the service quality of their life insurers. Thus, life insurers need to improve the quality of service to increase the level of customer satisfaction.

#### 4.4 Status of Customer Retention of Nepalese life insurance company

Table 4.8

##### *Descriptive analysis of Customer Retention*

Statement	Min	Mean	Max	Standard Deviation
Next time I will repurchase from my current service provider.	3	4.87	6	1.040
I intend to continue purchasing relationship with my current insurer in future.	2	4.98	6	0.989
I suggest my family and friends to take life insurance policy from my current service provider.	3	4.86	7	1.070
Good service quality motivates me to maintain long term relationship with my insurers.	3	4.74	7	0.827
Overall score of CRI	2.75	4.86	6.5	0.981

*Source: Survey Data (2022)*

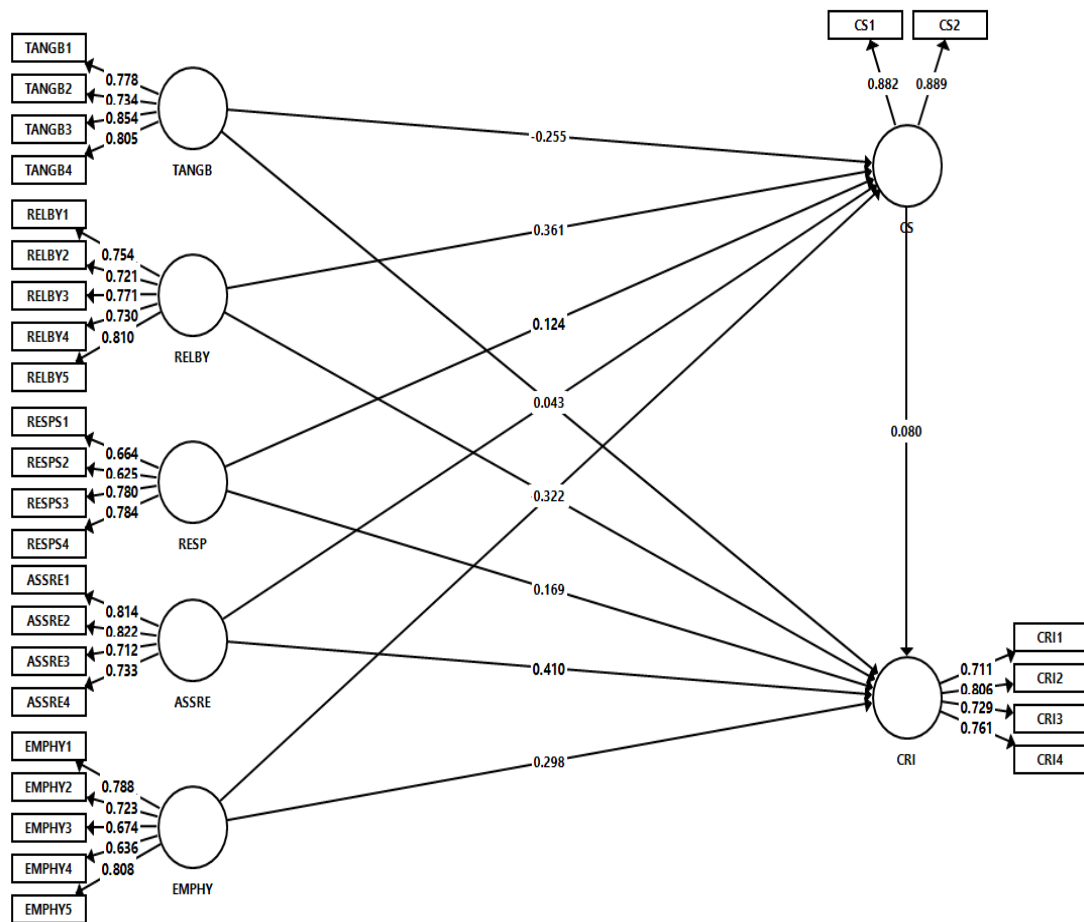
Customer retention is measured by four items adopted from the literature of (Venkatesan & Jacob (2019) and Yap & Kew (2007). Descriptive statistics show that the mean value for customer retention is 4.86 (S.D= 0.981), indicating moderate agreeableness of customer retention towards their current service providers. It has the highest mean value of 4.98 (S.D=0.989) for the statement “I intend to continue purchasing relationship with my current insurer in future” and has the lowest mean value of 4.74 (S.D=0.827) for the statement “Good service quality motivates me to maintain long term relationship with my insurers” suggesting that insurance company should more focus on service quality to increase the retention rate of customers.

#### 4.5 Assessment of the Measurement Model

The measurement models (outer model) in the PLS-SEM define the association between the constructs and indicator variables. Reflective and formative are the two common types of measurement model. The reflective model evaluates the internal consistency reliability and validity (convergent and discriminant). This research is based on the reflective measurement model, which is shown with its outer loadings in fig 2.2.

Figure 2.2

*Assessment of the Measurement Model*



**4.5.1 Reliability and Convergent Validity**

The primary criterion for assessing internal consistency reliability is Cronbach's alpha, which provides an evaluation of reliability by examining the correlation between the items of the supplied constructs. However, Cronbach's alpha has some limitation in the population, hence composite reliability is appropriate to measure internal consistency reliability (Hair et al., 2013).

Table 4.9

*Reliability and Convergent Validity*

<b>Variables</b>		<b>Outer loadings</b>	<b>CA</b>	<b>CR</b>	<b>AVE</b>	<b>Rho_A</b>
Tangibility	TANGB1	0.778	0.808	0.872	0.631	0.839
	TANGB2	0.735				
	TANGB3	0.854				
	TANGB4	0.805				
Reliability	RELBY1	0.754	0.816	0.871	0.575	0.830
	RELBY2	0.720				
	RELBY3	0.772				
	RELBY4	0.732				
	RELBY5	0.810				
Responsiveness	RESPS1	0.679	0.712	0.821	0.535	0.725
	RESPS2	0.695				
	RESPS3	0.792				
	RESPS4	0.753				
Assurance	ASSRE1	0.814	0.774	0.855	0.596	0.785
	ASSRE2	0.822				
	ASSRE3	0.712				
	ASSRE4	0.734				
Empathy	EMPHY1	0.792	0.777	0.849	0.531	0.781
	EMPHY2	0.722				
	EMPHY3	0.696				
	EMPHY4	0.639				
	EMPHY5	0.784				
Customer Satisfaction	CS1	0.879	0.725	0.879	0.784	0.726
	CS2	0.892				
Customer Retention	CRI1	0.710	0.745	0.839	0.566	0.751
	CRI2	0.810				
	CRI3	0.729				
	CRI4	0.757				

Note: CA- Cronbach's Alpha, CR- Composite Reliability, AVE- Average Variance Extracted

Source: Survey Data (2022)

Reliability between .6 and .7 may be acceptable for the composite reliability, and the lower acceptable limit for the Cronbach alpha is 0.7 (Hair et al., 2013). All the construct has the values within the acceptable region, so it has satisfactory values for Cronbach alpha and composite reliability.

Similarly, to test the convergent validity, researcher assess the AVE, which should be at least 0.5, and all the values are in the range of 0.531 to 0.784 (Table 4.9), indicating the acceptable level of convergent validity. Further, Hair Jr et al. (2017) also suggested the outer loading values should be at least 0.5, and all the values are within the acceptable region in this study.

#### 4.5.2 Discriminant Validity

Discriminant validity (part of construct validity) measure the distinction and variability from the other construct using the empirical standards (Hair et al., 2013). In this study, discriminant validity is measured by using the following three different criteria: Fornell and Larcker criterion (square root of AVE), Cross Loadings, and Heterotrait Monotrait ratio (HTMT).

Table 4.10

##### *Fornell and Larcker Criterion*

Variables	Assurance	Customer satisfaction	Empathy	Reliability	Responsiveness	Customer retention	Tangibility
Assurance	<b>0.772</b>						
Customer Satisfaction	0.403	<b>0.886</b>					
Empathy	0.6140	0.567	<b>0.729</b>				
Reliability	0.566	0.563	0.685	<b>0.758</b>			
Responsiveness	0.530	0.394	0.527	0.570	<b>0.731</b>		
Customer Retention	0.687	0.421	0.645	0.518	0.590	<b>0.753</b>	
Tangibility	0.402	0.157	0.448	0.498	0.516	0.483	<b>0.794</b>

Note: Values on the diagonal (bolded) are square root of the AVE while the off diagonals are correlation.

Source: Survey Data (2022)

According to Fornell and Larcker (1981), “square root” of the AVE of each latent variable must be higher than the correlations between the latent variables. Above table revealed that the square root of the AVE (Values on the diagonal, bolded) is greater than the corresponding correlation estimated, which satisfied the criterion of Fornell and Larcker. It means that these values are larger than the other values in the rows and columns that they are in; thus, it can be stated that discriminant validity is provided.

Table 4.11

*Cross Loading*

	Customer					Customer	
	Assurance	Satisfaction	Empathy	Reliability	Responsiveness	Retention	Tangibility
ASSRE1	<b>0.814</b>	0.311	0.431	0.442	0.519	0.603	0.486
ASSRE2	<b>0.822</b>	0.354	0.513	0.53	0.377	0.576	0.35
ASSRE3	<b>0.712</b>	0.295	0.462	0.359	0.242	0.463	0.151
ASSRE4	<b>0.734</b>	0.281	0.501	0.402	0.489	0.462	0.209
CRI1	0.487	0.289	0.597	0.52	0.396	<b>0.71</b>	0.498
CRI2	0.555	0.338	0.468	0.444	0.613	<b>0.81</b>	0.421
CRI3	0.427	0.191	0.389	0.268	0.411	<b>0.729</b>	0.227
CRI4	0.582	0.426	0.474	0.3	0.34	<b>0.757</b>	0.278
CS1	0.454	<b>0.879</b>	0.462	0.472	0.359	0.369	0.102
CS2	0.266	<b>0.892</b>	0.54	0.524	0.34	0.376	0.175
EMPHY1	0.443	0.442	<b>0.792</b>	0.397	0.38	0.446	0.308
EMPHY2	0.584	0.484	<b>0.722</b>	0.576	0.31	0.465	0.451
EMPHY3	0.32	0.438	<b>0.696</b>	0.432	0.334	0.446	0.124
EMPHY4	0.294	0.285	<b>0.639</b>	0.302	0.244	0.472	0.3
EMPHY5	0.562	0.399	<b>0.784</b>	0.748	0.629	0.522	0.434
RELBY1	0.332	0.381	0.572	<b>0.754</b>	0.41	0.281	0.416
RELBY2	0.6	0.378	0.468	<b>0.72</b>	0.321	0.346	0.447
RELBY3	0.581	0.486	0.511	<b>0.772</b>	0.529	0.546	0.341
RELBY4	0.24	0.438	0.428	<b>0.731</b>	0.4	0.283	0.245
RELBY5	0.343	0.428	0.615	<b>0.81</b>	0.458	0.432	0.45
RESPS1	0.295	0.234	0.35	0.523	<b>0.679</b>	0.357	0.318
RESPS2	0.405	0.199	0.425	0.327	<b>0.695</b>	0.41	0.388
RESPS3	0.409	0.255	0.336	0.247	<b>0.792</b>	0.543	0.438
RESPS4	0.429	0.439	0.44	0.592	<b>0.753</b>	0.4	0.359
TANGB1	0.18	0.219	0.245	0.395	0.376	0.248	<b>0.778</b>
TANGB2	0.257	0.115	0.366	0.394	0.463	0.288	<b>0.735</b>
TANGB3	0.39	0.201	0.39	0.438	0.403	0.453	<b>0.854</b>
TANGB4	0.388	0.011	0.398	0.361	0.414	0.476	<b>0.805</b>

Cross loading measured the all possible correlation of all constructs in the model (Chin, 1998). It required that construct should be highly correlated with its own parent construct than the other construct; otherwise, it is needed to exclude form the PLS model (Chin, 1998; Fornell & Larcker, 1981). As per the table 4.11, all the factor loading of each item is higher in their own construct than the other construct, which suggests the discriminant validity.

Table 4.12

*Heterotrait Monotrait Ratio (HTMT)*

Variables	Assurance	Customer satisfaction	Empathy	Reliability	Responsiveness	Customer Retention	Tangibility
Assurance							
Customer satisfaction	0.541						
Empathy	0.787	0.749					
Reliability	0.690	0.722	0.850				
Responsiveness	0.704	0.536	0.705	0.740			
Customer Retention	0.890	0.562	0.844	0.635	0.795		
Tangibility	0.468	0.223	0.550	0.616	0.685	0.593	

*Source: Survey Data (2022)*

The Heterotrait Monotrait Ratio (HTMT) criterion determines the average correlations between the indicators across constructs. It is developed to overcome the insensitivity factor of the Fornell Lackner and Cross loading criterion. Research shows that HTMT value below 0.9 confirmed the discriminant validity (Henseler et al., 2009). All the values of the HTMT for the constructs in the table are less than 0, confirming the discriminant validity.

## 4.6 Assessment of the Structural Model

### 4.6.1 Hypothesis Testing

In order to test the developed hypothesis, the structural model of this study is tested using the bootstrapping method in the PLS algorithm using the 5000 subsamples so as to identify the significance of the path coefficients. The hypothesis relationship between the variables is tested using the PLS algorithm, which is reflected in the table and figures below:

Figure 2.3

Assessment of structural mode

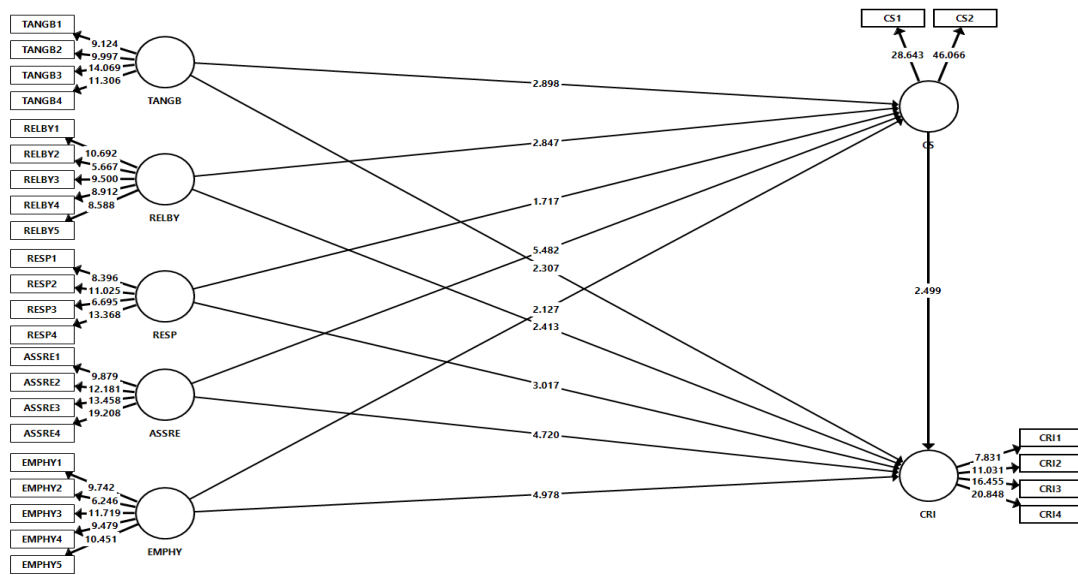


Table 4.13

Path Analysis Direct Results

Factors	Beta	Sample Mean (M)	T Statistics	P Values	Results
ASSRE -> CRI	0.215	0.215	4.776	0.000***	Accepted
ASSRE -> CS	0.306	0.304	5.482	0.000***	Accepted
CS -> CRI	0.149	0.151	2.506	0.011*	Accepted
EMPHY -> CRI	0.277	0.279	4.978	0.000***	Accepted
EMPHY -> CS	0.348	0.346	5.574	0.000*	Accepted
RELBY -> CRI	0.131	0.132	2.413	0.016*	Accepted
RELBY -> CS	0.182	0.185	2.847	0.004**	Accepted
RESP -> CRI	0.139	0.142	3.017	0.003**	Accepted
RESP -> CS	0.113	0.114	1.717	0.086	Rejected
TANGB -> CRI	0.114	0.114	2.307	0.021*	Accepted
TANGB -> CS	0.189	0.188	2.898	0.004**	Accepted

Source: Survey Data (2022)

Based on the results of Table 4.13, the assessment of path coefficients identifies that all the variables are positively associated. The association between assurance and

customer retention, assurance and customer satisfaction, empathy and customer retention, and empathy and customer satisfaction are positively and highly significant with each other at 0.00 significance level as p-value < 0.001 with beta coefficient 0.215, 0.306, 0.277 and 0.348 respectively.

Similarly, reliability has positive and significant relationship with both customer satisfaction and customer retention ( $\beta = 0.182$ ,  $p < 0.01$ ) and ( $\beta = 0.131$ ,  $p < 0.05$ ). Likewise, tangibility has positive and significant relationship with both customer satisfaction and customer retention ( $\beta = 0.189$ ,  $p < 0.01$ ) and ( $\beta = 0.114$ ,  $p < 0.05$ ). customer satisfaction and responsiveness have positive and significant relationship with customer retention ( $\beta = 0.129$ ,  $p < 0.05$ ) and ( $\beta = 0.139$ ,  $p < 0.01$ ) respectively. However, responsiveness is positively and significantly associated with customer retention ( $\beta = 0.139$ ,  $p < 0.01$ ) but insignificantly associated with customer satisfaction as the p-value is > 0.05. Thus, the hypothesis is rejected for the given equation.

Table 4.14

*Path Analysis Mediating Results*

Factors	Beta	T Statistics	P Values	Confidence Interval		Results
				LCL	UCL	
				ASSRE -> CS -> CRI	0.045	
EMPHY -> CS -> CRI	0.052	3.374	0.001***	0.041	0.154	Accepted
RESP -> CS -> CRI	0.017	2.182	0.045*	0.005	0.098	Accepted
RELBY -> CS -> CRI	0.027	2.247	0.034*	0.021	0.129	Accepted
TANGB -> CS -> CRI	0.028	2.465	0.018*	0.017	0.134	Accepted

$p < 0.001$ \*\*\*,  $p < 0.01$ \*\* ,  $p < 0.05$ \*

Source: Survey Data (2022)

Table 4.14 shows the indirect or mediating results of the path analysis for the variable Service quality (tangibility, reliability, responsiveness, assurance, and empathy), Customer satisfaction, and Customer retention.

The coefficient value for the indirect effect of assurance on customer retention through customer satisfaction is 0.045, which is lower than the direct effect of assurance and customer retention ( $\beta = 0.045 < \beta = 0.215$ ). In light of this, we conclude that customer satisfaction acts as a mediator between assurance and customer retention.

Similarly, the coefficient beta value for the indirect effect of empathy on customer retention is lower than that of direct effect path analysis results at 0.001 significance level. Moreover, the coefficient value for the indirect effect of responsiveness, reliability and tangibility is lower than the beta coefficient value calculated from direct effect path analysis results (responsiveness:  $\beta = 0.017 < \beta = 0.139$ , reliability:  $\beta = 0.027 < \beta = 0.131$  and tangibility:  $\beta = 0.028 < \beta = 0.114$ ) at 0.05 significance level. Further, the indirect effects of 95% boot CI Bias corrected for all three variables do not straddle at 0 in between, indicating mediation. Therefore, we can conclude that customer satisfaction plays the mediating role between service quality dimensions and customer retention.

Table 4.15

*Assessment of Model Fit*

<b>Endogenous Latent Variable</b>	<b>R square</b>	<b>Q square</b>
CRI	0.603	0.533
CS	0.411	0.326

*Source: Survey Data (2022)*

R square and Q square are calculated for this study to assess model fit. From the above table, it seems that the independent variables tested, i.e., Tangibility, Reliability, Responsiveness, Assurance, and Empathy, explained 41.1% variation in customer satisfaction and 60.3% variation in customer retention. As Chin (1998) suggested, R square greater than 33% shows a moderate effect on the endogenous variable. Thus, the above table identifies that the R square on customer satisfaction and customer retention have a moderate effect.

Similarly,  $Q^2$  established the predictive relevance of the endogenous constructs obtained by the Blindfolding procedure. If the  $Q^2$  value is greater than 0, it demonstrates that our values are appropriately generated and that the model has predictive relevance (Hair et al., 2011). For this study,  $Q$  square values are greater than 0 on Customer satisfaction ( $Q^2 = 0.326$ ) and customer retention ( $Q^2 = 0.533$ ), which reflects predictive relevance.

Table 4.16

*Assessment of the effect size ( $f^2$ )*

<b>Factors</b>	<b>CRI</b>	<b>CS</b>
CRI		
CS	0.025	
ASSRE	0.160	0.148
EMPHY	0.185	0.072
RELBY	0.022	0.091
RESP	0.039	0.014
TANGB	0.037	0.075

*Source: Survey Data (2022)*

$F^2$  determines the effect size that one variable has on another variable. It generally demonstrates the relative effect of a particular variable on the coefficient of determination, i.e., R square affecting the dependent variable. The value of the  $F^2$  at  $\geq 0.02$ ,  $\geq 0.15$  and  $\geq 0.35$  generally reflects small, medium, and large effect respectively in the research (Cohen, 2013). From the above table, it can be identified that the assurance has a medium effect in producing R square for customer satisfaction and customer retention. Similarly, Empathy and customer satisfaction have medium and small effects in producing customer retention, respectively. Further, Reliability, Responsiveness, and Tangibility have a small effect in producing R square for both customer satisfaction and customer retention.

Table 4.17

*Summary of Hypotheses*

<b>Hypotheses</b>	<b>Result</b>
H <sub>1a</sub> : Tangibility has a significant positive influence on the customer satisfaction.	Accepted
H <sub>1b</sub> : Reliability has a significant positive influence on the customer satisfaction.	Accepted
H <sub>1c</sub> : Responsiveness has a significant positive influence on the customer satisfaction.	Rejected
H <sub>1d</sub> : Assurance has a significant positive influence on the customer satisfaction.	Accepted
H <sub>1e</sub> : Empathy has a significant positive influence on the customer satisfaction.	Accepted
H <sub>2</sub> : Customer Satisfaction has a significant positive impact on customer retention.	Accepted
H <sub>3a</sub> : Tangibility has a significant positive influence on customer retention.	Accepted
H <sub>3b</sub> : Reliability has a significant positive influence on customer retention.	Accepted
H <sub>3c</sub> : Responsiveness has a significant positive influence on customer retention.	Accepted
H <sub>3d</sub> : Assurance has a significant positive influence on customer retention.	Accepted
H <sub>3e</sub> : Empathy has a significant positive influence on customer retention.	Accepted
H <sub>4</sub> : The relationship between Service Quality and Customer Retention is mediated by Customer Satisfaction.	Accepted

#### **4.7 Major Findings**

The major findings of this study are summarized below:

- The research study examined among the customer of five life insurance companies within the Kathmandu valley, 159 (56.78 %) respondents were male, and 116 (41.43 %) respondents were female, which clearly shows that majority of the male respondents compared to female.

- The result also shows that 32 (11.43%) respondents were of age 18-28, 108 (38.57%) respondents were of age 29-39, 91 respondents representing 32.5% of total respondents, were of age 40 -49, and 17.5% of total respondents are over 50 age group.
- Similarly, the majority of the age group, i.e., 58.57% of total respondents, have the highest education qualification of master's degree followed by 36.78% representing bachelor degree, followed by 3.57% having the highest education qualification of +2 and 1.07% of the total respondents have the SLC degree.
- H1a is supported, indicating that the Tangibility ( $\beta=0.189$ ,  $p<0.01$ ) has a positive and significant influence on customer satisfaction. So, better physical facilities and modern equipment and technology of the company enhance customer satisfaction.
- H1b is supported, indicating that the Reliability ( $\beta=0.182$ ,  $p<0.01$ ) has a positive and significant influence on customer satisfaction. So, better performance as companies' promised and error-free transactions rendered to customer enhances customer satisfaction.
- H1c is not supported, indicating that the Responsiveness ( $\beta=0.113$ ,  $p>0.05$ ) has no significant influence on customer satisfaction. So, an employee's ability to deliver services and attending customers' needs do not highly impact on customer satisfaction.
- H1d is supported, indicating that the Assurance ( $\beta=0.306$ ,  $p<0.001$ ) has a positive and significant influence on customer satisfaction. So, nice behavior of insurers toward customers, safe and secure transactions, and better knowledge of insurers towards policies enhance customer satisfaction.
- H1e is supported, indicating that Empathy ( $\beta=0.140$ ,  $p<0.05$ ) has a positive and significant influence on customer satisfaction. So, close attention of insurers toward customers and their problems and convenient operating hours to customers enhances customer satisfaction.
- H2 is supported, indicating that customer satisfaction has a significant positive impact on customer retention. So, higher satisfaction and an enjoyable experience for customers enhance customer retention.

- H3a is supported, indicating that the Tangibility ( $\beta=0.114$ ,  $p<0.05$ ) has a positive and significant influence on customer retention. So, better physical facilities and modern equipment and technology of the company enhance customer retention.
- H3b is supported, indicating that the Reliability ( $\beta=0.131$ ,  $p<0.05$ ) has a positive and significant influence on customer retention. So, better performance as company's promised and error-free services rendered to customer enhances customer retention.
- H3c is supported, indicating that Responsiveness ( $\beta=0.139$ ,  $p<0.01$ ) has a significant influence on customer retention. So, employees' abilities in delivering services and attending to customers' needs enhance customer retention.
- H3d is supported, indicating that the Assurance ( $\beta=0.215$ ,  $p<0.001$ ) has a positive and significant influence on customer retention. So, nice behavior of insurers toward customers, safe and secure transactions, and better knowledge of insurers enhance customer retention.
- H3e is supported, indicating that Empathy ( $\beta=0.277$ ,  $p<0.001$ ) has a positive and significant influence on customer retention. So, close attention of insurers towards customers and their problems and convenient operating hours enhances customer retention.
- H4 is supported, indicating that the Service quality dimensions, and customer retention are mediated by customer satisfaction as the indirect coefficient beta value of all the dimensions, i.e., tangibility, reliability, responsiveness, assurance, and empathy, is lower than the beta coefficient of direct effect. So, higher the service quality higher would be the customer retention due to customer satisfaction.

## CHAPTER V

### DISCUSSIONS, CONCLUSIONS, AND IMPLICATIONS

This chapter covers the study's discussion, the conclusion of the findings, and the implications of this study. The main objective of this study was to study the impact of service quality on customer satisfaction and customer retention of Life insurance companies in Kathmandu valley. The entire investigation has been summarized in this paper, and the main conclusion of this research has been drawn. Further, potential implications have been provided for life insurance company managers, employees, future researchers, and policymakers.

#### 5.1 Discussion

This study examined the impact of service quality on customer satisfaction and customer retention among the life insurance companies in Kathmandu valley. It explored the customer perception of fairness in service quality using the five-dimensional model, including tangibility, reliability, responsiveness, assurance, and empathy and its impact on customer retention and customer satisfaction. Additionally, it looks at how customer satisfaction mediates the relationship between customer retention and service quality aspects. Findings from this study will aid to the current literature on the mediating role played by customer satisfaction between service quality and retention of customers and help to explore the five-dimensional model of service quality and its impact on customer satisfaction and customer retention of the life insurance companies of Kathmandu Valley are examined.

Descriptive statistics were examined in the first step to identify the effect of the service quality dimensions on customer satisfaction and customer retention, which provided a general notion of the relationship among the variables. The findings showed a modest level of satisfaction with aspect of service quality as tangibility, reliability, responsiveness, assurance and empathy. It indicates that service quality improvements should be done on all five dimensions of service quality.

Further, this study revealed that among life insurance businesses, all the service quality dimensions have a significant positive impact on customer retention and most of them have a considerable positive impact on customer satisfaction. Moreover, it

showed that the indirect effect of the service quality dimensions on the customer retention, through the mediating variable (customer satisfaction), is higher than the direct effect on the customer retention. These results were uniform with the study of (Ishfaq et al., 2010; Ismail et al., 2017; Nsiah & A Mensah, 2014). Additionally, earlier studies revealed that businesses could improve their competitive advantage and increase customer retention to the companies by increasing the satisfaction level of customers, which is possible only by raising the level of service provided by the businesses.

Secondly, tangibility, the first dimension of service quality, has a positive and significant impact on customer satisfaction and customer retention among life insurance companies in Kathmandu valley. These results were consistent to the past studies (Upadhyay & Adhikari, 2021; Yap & Kew, 2007). Additionally, earlier studies showed that businesses could improve their competitive advantage and increase customer satisfaction levels by improving the tangibility of the companies. Therefore, enhancing physical facilities and providing modern equipment and technology not only helps to satisfy customers but also helps to retain them for the long term.

The second dimension of service quality, reliability, is found to have a positive and significant impact on customer satisfaction and customer retention. This finding is uniform with the previous research done by (Ismail et al., 2017). Moreover, past studies also suggested that better performance of the company to the customers and error-free transactions helps to enhance customer satisfaction, thereby increasing the retention of customers.

Customer retention is strongly and favorably impacted by responsiveness, the third dimension of service quality. However, it has a marginally positive and negligible impact on customer satisfaction among Kathmandu Valley life insurance company clients, demonstrating an inconsistent outcome with the study of Ravichandran et al. (2010) which was done in the private retail banking in India. It means that, while the responsiveness dimensions of service quality do not increase customer pleasure, they are likely to impede the relationship between service quality and customer retention.

The fourth and fifth elements of service quality, assurance and empathy, have a considerable and favorable impact on customer satisfaction and customer retention. These results were in line with earlier literature (Jamal & Anastasiadou, 2009; Mahmood et al., 2018; Nsiah & A Mensah, 2014). Further, previous scholars suggested that friendly behavior of insurers to customers, safe and secure transactions, better knowledge of insurers, close attention of insurers towards customers and their problems, and convenient operating hours to customers are essential for every company in order to improve customer retention and long-term satisfaction.

The outcomes of the study showed that service quality is a highly favorable indicator of customer retention. It was also apparent that Service quality positively and significantly influenced customer satisfaction. Customer satisfaction is positively and significantly associated with service quality and customer retention, and the beta coefficient of the indirect effect is lower than the direct effect among variables. Thus, it became clear that customer satisfaction partially balances the link between service quality and client retention. This finding is consistent with the earlier research (Chen et al., 2011; Herath & Herath, 2019; Solekah, 2019). Additionally, this outcome validated earlier research's findings regarding the association between two variables i.e., service quality and customer satisfaction (Annamalah et al., 2011; Sari et al., 2018). This finding confirms that customer retention is one of the key competitive elements for business success. Any life insurance provider that provides the highest level of customer satisfaction and service will certainly benefit from this finding as a competitive advantage.

## **5.2 Conclusions**

In the current scenario, high inflation, stiff competition, and customer churn are the major challenges and obstacles for the life insurance business. Customers are always eager to choose best of the best services from service providers. For every business, the expenses related to keeping current customers are significantly less expensive than the expenses related to acquiring new ones. Therefore, every business needs to focus on a strategy to impress and keep both their current and potential customers. service quality is the weapon that enables a business to stand out from its rivals by boosting sales and market shares, strengthening customer relations, raising customer satisfaction, and ultimately keeping customers over the long term (Lewis, 1991). As a

result, this study has shed light on how service quality aspects affect customer satisfaction and to return.

This study's main goal was to apply the five characteristics of the favorable service quality model: tangibility, reliability, responsiveness, assurance, and empathy. The research framework was developed to discuss the connection between customer satisfaction, customer retention, and service quality aspects. This paper considers the SERVPERF model of service quality which helps to measure customer perceptions towards companies and their services and facilities. The empirical results found to have a direct and an indirect link between Service quality and customer retention. Additionally, indirect connections between them is mediated by Customer Satisfaction. Moreover, in line with prior research, customer satisfaction affects behavioral intentions like referrals and repurchase intentions which influence overall customer retention.

Since service quality and customer satisfaction are the two main antecedents of customer retention, this result is consistent with prior literature and suggests that customer retention, one of the most crucial factors in determining the success of any business, is dependent on these two factors. Furthermore, research has shown that achieving customer satisfaction and their retention are essential for insurers' survival, which is possible only by providing quality services. Hence, in order to remain competitive and foster customer satisfaction and retention, it is crucial for Nepalese life insurance firms to prioritize service quality.

### **5.3 Implications**

The findings of the current study have a wide range of implications for the existing life insurance industry and upcoming researchers. It is also important to the managers and employees who are leading and working in life insurance companies and providing services to insured ones. Moreover, the results from this study will provide the framework for future research in exploring the mechanism which is stated in this study in more detail.

### **5.3.1 Practical Implication**

The results of this research offer empirical proof that service quality shows a favorable and significant link with customer satisfaction and customer retention. Among all the Service quality elements, Empathy and Assurance shows the greatest influence on customer retention and customer satisfaction. This suggests that businesses might increase their competitive advantages by paying careful attention to customers and solving their problems, providing error-free (safe) transactions, and providing convenient operating hours to customers would not only satisfy the needs of customers but also increase customer satisfaction and retention of the consumers.

Additionally, this research effectively filled the research gap on customer retention and satisfaction with the quality-of-life insurance firms' services. As life insurance companies are facing problems of huge competition, customer churn, and switching of customers to other companies so, this paper will be helpful to managers and employees of the life insurance companies to know what are the things that they should be more focused on to satisfy and retain their customers.

In addition, this study suggested that insurance businesses must use modern equipment and technology, provide the highest quality goods and services at reasonable costs, issue contracts with unambiguous terms, and quickly and efficiently resolve claims. Customers must feel secure in the workers and agents of insurance businesses. The employees and agents of an insurance firm must present themselves neatly, and they must offer appropriate operating hours to all of their clients. By following all these guidelines, life insurance companies can easily compete and get success in their business. Thus, this study will be the roadmap for those insurance companies who desire to attract and keep both potential and current customers and lead the overall life insurance industry.

### **5.3.2 Implications for Future Research**

This study was conducted to look at how service quality affects customer satisfaction and intent to return to Nepalese Life insurance companies. This study also looked at whether customer satisfaction mediated the link between customer retention and the service quality parameters. This study uses SERVPERF model's five service quality dimensions- tangibility, reliability, responsiveness, assurance, and empathy- to

analyze the service quality of life insurance companies through customer's perception. Therefore, comparable research can be conducted in the future using a different model of service quality, such as the SERVEQUAL model, which measures service quality by calculating the difference between customer expectations and actual customer perceptions of it.

There are few studies done in the area of the life insurance industry in Nepal, but as far as the researcher's knowledge, the service quality and its impact on customer retention and customer satisfaction are yet to be explored in Nepal. Therefore, the findings of this study will help in exploring more about this in detail for other researchers in the future. This study also restricted its generalization to some extent by concentrating on life insurance company consumers in the Kathmandu Valley. Therefore, this subject can be investigated in larger, more diversified societies as well as other financial sectors in the future. In addition, this study used a quantitative approach to its investigation. Therefore, future studies might be carried out using a qualitative research approach, which might provide a more expressive picture of customers, offer more substance to the study, and provide an in-depth insight of the Service quality and customer retention concept. Finally, it hoped that the study's findings would be beneficial and useful to practitioners, academics, insurance company management, and policymakers as well as serve as a valuable source for current and future research.

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## APPENDIX

### Questionnaires to the customers

Dear Respondent,

I am **Susmita Dahal**, a student of Master of Finance and Control (MFC) at School of Management, Tribhuvan University. I am conducting Graduate Research Project (GRP) on titled "**Impact of Service quality on Customer retention of Life insurance Customers: Mediating role of Customer satisfaction**". I would like to request you to give few minutes to fill this questionnaire. I assure you that the information provided by you will be confidential and used only for research purpose. Thank You.

#### Part I: Personal Information

##### 1. Gender

Male		Female		Other	
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##### 2. Age

Below 18 years	
18-28	
29-39	
40-49	
50 years and above	

##### 3. Marital Status

Single	
Married	
Divorced	

##### 4. Number of Children

0	
1	
2	
3	
More than 3	

5. Education Level

SLC	
+2	
Bachelor	
Masters and above	

6. Profession

Student	
Self-employed	
Government Service	
Private Job	
Business man/women	
Other	

7. Permanent Residence

Province no. 1	
Province no. 2	
Province no. 3	
Province no. 4	
Province no. 5	
Province no. 6	
Province no. 7	

8. Life insurance owned company

Rastriya Beema Sasthan	
National Life Insurance Company Limited	
Nepal Life Insurance Limited	
Asian Life Insurance Company Limited	
Surya Life Insurance Company Limited	
Other	

9. Type of policy owned

Aajeevan Jeevan Beema	
Sabadhik Jeeban Beema	
Samuhik Myadi Jeevan Beema	
Jeevan Bandhu Dohoro Lav Jeevan Beema	
Bal Bhabisya Jeevan Beema	
Other	

10. Number of Policy Owned \_\_\_\_\_

## Part II

Please rate based on how do you agree or disagree with these statements on the scale of 1-7.

**Scoring Scale: 1= Strongly Disagree, 2= Disagree, 3= Somewhat Disagree, 4= Neither Agree nor Disagree, 5= Somewhat Agree, 6= Agree, 7=Strongly Agree**

### Questionnaire regarding Measurement of Perceived Service Quality

S.N	Statements	1	2	3	4	5	6	7
	<b>TANGIBILITY</b>							
1.	My life insurance company uses modern equipment and technology.							
2.	My life insurers' offices are visually attractive.							
3.	Employees and agents of my life insurance company are neat and well appeared.							
4.	Service associated materials (leaflets, prospects, service documents etc) used by my life insurers are visually appealing.							
	<b>RELIABILITY</b>							
1.	My life insurer provides services as they promised to me.							
2.	My life insurer solves my problems with sincere interest.							
3.	My life insurer offers its services right the first time without discomforting me.							
4.	My life insurer offers services within the specified contract time limit.							
5.	My life insurer issues error free bills, statements, receipts, contracts, claims and other documents.							
	<b>RESPONSIVENESS</b>							
1.	My Life Insurer inform me exactly about							

	when the service will be delivered.								
2.	My life insurer provides prompt service to me.								
3.	Employees of insurance company are always willing to help me, whenever it is required.								
4.	Employees of my life insurance company always respond to the request.								
	<b>ASSURANCE</b>								
1.	Employees of my life insurance company instill confidence in me.								
2.	I feel safe while performing transactions for the insurance products.								
3.	My life insurer is consistently deal with me in polite manner.								
4.	My service providers have necessary knowledge to give professional service to me.								
	<b>EMPATHY</b>								
1.	I receive individualized care from my life insurer.								
2.	Employees and agents of insurance companies deals with me in a caring manner.								
3.	The best interests of the customers come first for my life insurers.								
4.	My life insurer understands the customer needs.								
5.	The operating hours that the life insurance company provides is convenient to me.								

### Questionnaire regarding Customer Satisfaction

S.N.	Statements	1	2	3	4	5	6	7
1.	I am happy with the quality of services offered by my life insurers.							
2.	My decision to use this company's services was a good one.							

### Questionnaire regarding Customer retention

S.N.	Statements	1	2	3	4	5	6	7
1.	Next time I will buy again from my current service provider.							
2.	I intend to continue the purchasing relationship with my current insurance company in future.							
3.	I suggest my family and friends to take life insurance policy from my current service provider.							
4.	Good service quality motivates me to maintain long term relationship with my current service provider.							

# IMPACT OF SERVICE QUALITY ON CUSTOMER RETENTION: THE MEDIATING EFFECT OF CUSTOMER SATISFACTION

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ORIGINALITY REPORT

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