



ST. MARY'S UNIVERSITY
SCHOOL OF GRADUATE STUDIES

ASSESMENET ON CUSTOMER SATISFACTION AND LOYALTY
AMONG CUSTOMERS OF INSURANCE COMPANIES: IN CASE
OF NYALA INSURANCE S.CO

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June, 2017

Addis Ababa



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OF NYALA INSURANCE S.CO**

A Thesis submitted to St. Mary University-in partial fulfillment of the requirements
for Degree of Masters of Business Administration

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Declaration

I, Lidya Hailu declare that this work entitled “Assessment on customer satisfaction & Loyalty among customers of Nyala Insurance Company” is outcome of my own effort & study and that all sources of materials used for the study have been duly acknowledged. I have produced it independently except for the guidance and suggestion of the Research Advisor.

This study has not been submitted for any degree in this University or any other University. It is offered for the partial fulfillment of the degree of Masters of Business Administration [MBA].

By Lidya Hailu

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Date_____

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List of Acronyms

ASQC	American Society of Quality Control
NISCO	Nyala Insurance Share Company
NBE	National Bank of Ethiopia
SPSS	Software package of social Science

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Abstract

The liberalization of the economic system in Ethiopia enabled the emergence of private insurance companies and have created competitive environment in the insurance industry. This study focused to assess the customer satisfaction & loyalty among customers of Nyala insurance s.c. Accordingly, appropriate research questions were postulated to guide the research. The study adopted a purely descriptive approach. The SERVQUAL instrument was incorporated into a detailed questionnaire to solicit information from clients. The data collected from 311 questionnaires were analyzed using gap score, statistical tools such as mean and correlation analysis. The gap score between perception and expectation of customers of the insurance companies showed that there is a negative gap score in all service quality dimensions meaning those customers expectations exceeds their perception. The study also indicated that the five service quality dimensions have positive and significant relationship with loyalty. The study showed that the selected service centers (branches) located in Addis Ababa were not providing the level of service quality demanded by customers. The findings suggested that the insurance companies need to improve all the dimensions of service quality.

Keywords: SERVQUAL, Tangibility, Reliability, Responsiveness, Assurance, Empathy, Customer Satisfaction and Loyalty.

CHAPTER ONE

INTRODUCTION

1.1 Background of the Study

For success and survival in today's competitive environment, delivering quality service is of paramount importance for any economic enterprise. Currently, service firms like other sectors are realizing the significance of customer centered philosophies. They are also using service quality as an important differentiator and a path to success. (Gale 1990).

It is the perceived value, which determines customer satisfaction (Clow & Kutz 2003) stated that customer satisfaction or dissatisfaction is considered to be the result of a comparison between the pre-use expectations that a customer has about the product or service and the post-use perception of product or service performance.

Insurance companies, being one of the service providers, are under increasing pressure to demonstrate that their services are customer focused and that continuous performance improvement is being delivered. In search of competitive advantage, insurances are placing more focus on service quality. Literature in the area of service quality and loyalty indicates that it has remained unclear whether or not there is a direct relationship between perceived service quality and loyalty. (Zeithaml, 1996) report such a relationship, whereas Cronin and Taylor (1992) failed to find one.

In the study by Cronin and Taylor (1992) service quality did not appear to have a significant (positive) effect on repurchase intentions. Boulding, Kalra, Staelin & Zeithaml (1993) found in their study positive relationships between perceived service qualities and repurchase intentions and willingness to recommend. With regards to service loyalty, perceived service quality is often viewed as a key antecedent (Dick and Basu, 1994).

In the past, insurance companies have managed to avoid pressures regarding service quality mainly because only a handful could understand the concept (Affiane & Zalina, 2008). This situation however is changing in recent years as customers are becoming more aware of their expectations and demand higher standards of services (Krishnaveni & Divya, 2004). Customers

demand better quality service and delivering quality service is considered an essential strategy for success and survival in today's competitive environment (Dawkins & Reichheld, 1990; Parasuraman et al 1990). Any decline in customer satisfaction due to poor service quality would be a matter of concern “Consumers being more aware of rising standards in service, prompted by competitive trends, have developed higher expectations” (Marshall, 1998)

In addition, as customer expectations are changing over time, insurance service providers are advised to measure their customer expectation and satisfaction regularly and handle complaints timely and effectively. (Anantha & Huam, 2014). Insurance companies therefore, need to be more responsive to the changing demands and expectations for more differentiated high quality service.

1.2 Background of Insurance in Ethiopia

Before knowing the history of insurance, it is vital to know first what insurance is. Insurance is a risk transfer mechanism whereby an insured transfers a risk exposure to an insurer in consideration for payment of premium.

It is also a tool of prime importance in modern economies. Insurance serves a number of valuable economic functions that are largely distinct from other types of financial intermediaries

Usually, insurance contracts involve small periodic payments in return for protection against uncertain, but potentially severe losses.

According to National Bank of Ethiopia, the historical development of Ethiopian insurance industry may classify in to four periods of demarcations and this classification is also supported by Anja Smith and Doubell Chamberlain (2009, P: 33) and Birritu (2012, p: 18):

- A. The first is the Period of Agents that started in the early 1900 and run up to the early 1950's.
- B. The second, the Imperial Period, run from the early 1951' to 1974.
- C. The third was the Period of Monopoly that covered the years between 1974 and 1991.
- D. The fourth is, the Current Liberalization Period that defines the time from 1991 onwards.

Nyala Insurance S.C (NISCO) is one of the private insurance company established under proclamation number 86/1994 licensing and supervision of insurance business in Ethiopia in July 1995 with a paid up capital of ETB seven million. The company had 7 share holders, 12 branches and 23 employees at its inception. Currently the number of share holders has grown to 17, number of employee to 274 and the total paid up capital reached ETB 260 million. NISCO has also evolved in opening 27 branches and 15 Contact offices of which 10 branch and all of the Contact offices are located out of the capital, Addis Ababa (NISCO Annual Report, 2014/15).

1.3 Statement of the problem

Often there is disconnecting between what customers want and what service providers offer. This is particularly true in case of services like insurance because of the intangibility element associated with it. According to Parasuraman et al (1985), service quality is the difference between customers' expectations of services and their perceived service. If the expectation is greater than the service performance, perceived quality is less than satisfactory and general dissatisfaction occurs.

In order to identify the above gap, many researches undertaken to investigate the gap using SERVQUAL model which was developed by Parasuraman et.al. (1985, 1988). This model has five dimensions to measure the perceived service quality.

However, the model has different implication in different country or region due to a difference in economic, socio-cultural and political factors. For instance a study undertaken in Ghana insurance company find out that the two dimensions namely, Reliability & Responsiveness has an impact on service quality. (Frank and Theresa, 2011) In Kenya studies of three researchers who examine that the five dimensions have a significant on service quality of banking industry. (Daniel, Joseph and Victor, 2013). In addition to these two studies, a study undertaken in India found that there are four major factors which influence customer perception of service quality, namely responsiveness, assurance, tangible and empathy in insurance service provider. (Singh, Sirohi and Chaudhary, 2014)

Thus, this researcher was initiated to assess the customer satisfaction and the relationship between customer satisfaction & loyalty using SERVQUAL model in Ethiopia by taking one insurance company as case study. In this interest, the following questions are raised;

1. How do customers' expect the quality of service in NISCO with respect to the five dimension of service quality?
2. How do customers' perceive the quality of service in NISCO from the five dimension of service quality aspect?
3. What gap exists between customer expectation and perception of service quality based on the five service quality dimensions?
4. What kind of relation is there between customer satisfaction and customer loyalty in Nyala insurance s.co?

This paper examined these issues based on a survey conducted in Nyala Insurance S.C.

1.4 Objective of the study

The general objective of this study is to asses' customer's satisfaction and loyalty among customers of insurance companies in case of Nyala Insurance S.C. More specifically the study seeks:

- 1) To measure customers expectation of each of the five dimensions of service Quality using SERVEQUAL instrument.
- 2) To measure customers perception of each of the five dimensions of service quality using the SERVEQUAL instrument.
- 3) To determine the gap in customers perception and expectations in each of the five dimensions of Nyala Insurance S.C.
- 4) To determine the relationship between perceived service quality and customer loyalty.

1.5 Significance of the study

A study of Customer's satisfaction and loyalty is important for several reasons. First, for stakeholders like shareholders and employees, it provides invaluable information that allowed them to provide useful insights to the improvement of service delivery for their insurance companies. Second, it provides additional evidence as to the relationship between insurance

customer's satisfaction and loyalty. Third, it provides feedback for the insurances regarding the perceptions of their customers toward their service quality. Overall, it extends the service quality literature.

1.6 Scope of the Study and Limitation

1.6.1 Scope

The scope of this study focused on customers' perception toward service quality at selected branches of NISCO. Thus, the study examined insurance service quality only from customers' perspective. The scope of this study was limited to assessment of the level of insurance customer satisfaction and the relationship between customer satisfaction & loyalty in NISCO from five service quality dimensions (Tangibles, Reliability, Responsiveness, Assurance and Empathy) perspective. The targets of the study were the holders of insurance policy who placed their business in the capital city (Addis Ababa) where the majority of the total population is found. NISCO branches operating out of Addis Ababa are excluded due to finance and time. The study also used Questionnaire as data collection method from the sample customers.

1.6.2 Limitations

As can be said for all research, this study is not proceeding without limitations. The most obvious limitation is the type of research being conducted. In survey research respondents may misinterpret various items on the questionnaire, some subjects in the study are simply forgotten to complete and return the questionnaire. Furthermore, the study is limited in scope as to the number of quality dimensions of evaluation. The results in the study pertain only to the respondents and generalization to a wider population should be done with consideration. This paper is taking as a respondent only those customers that are located in Addis Ababa. Hence other customers of the Nyala Insurance Share Company (NISCO) who are located upcountry are difficult to take their response due to cost and time.

1.7. Organization of the Paper

This paper is organized into five chapters. The first chapter presents background of the study and the insurance industry in Ethiopia, statement of the problem including the research questions, objectives and significance of the study. After the introductory chapter, the next section is reviews the literature on customer satisfaction and its relationship to overall loyalty in the context

of insurance services. The paper then presents the third chapter which describes the methodology used in the empirical study of insurance customers in Nyala insurance S.C, including the sampling procedure and the composition of data analysis. The fourth chapter is about the data presentation, analysis & interpretation. In the last chapter, findings of the study, conclusions and recommendations are presented.

CHAPTER TWO

REVIEW OF RELATED LITERATURE

2.1 Introduction

This literature review the main issues surrounding perception of service quality within the insurance sector, how to measure service quality and the relationship between service quality and loyalty. The study within this review of literature focuses on the objectives stated in chapter one. The value of studying the aforementioned literature areas is to provide a meaningful discussion and analysis of service quality in a structured way. At the end of this major section it is hoped that a critical understanding of key issues is exhibited, that the reader is better informed and that there is a clear justification for the research in this area.

2.2 Quality Management

In linguistic sense, quality originates from the Latin word *quails*, which means “such as the thing really is” in today’s business world there is no single accepted definition of quality. However, irrespective of the context in which it is used, it is usually meant to distinguish one organization, event, product, service, process, person, result, action, communication... from another. According to Monks (1987), Quality is a holistic concept that gives direction to an organization and links its members. Quality measures how closely goods or services conform to specified standards. Monks (1987), indicated quality standards may relate to time, materials, performance, reliability, appearance, or any quantifiable characteristics.

Many experts sought to define quality using their unique perspective. Some of them define quality as follows:

- “Quality is conformance to requirements”: Crosby (1979)
- “Quality is zero effects- doing it right the first time”: Parasuraman et al. (1985)
- “Quality is the totality of features and characteristics of a product or service that bear on its ability to satisfy stated or implied needs”. ASQC
- Quality in a product or service is not what the supplier puts in; it is what the customer gets out and is willing to pay for. Drucker& Peter (1985)

According to David A. Garvin (1988) common perspectives on quality include. *The transcendent view of quality* is synonymous with innate excellence: a mark of uncompromising standards and

high achievement. It argues that people learn to recognize equality only through the experience gained from repeated exposure. *The product-based approach* defines quality objectively. Quality is a function of a specific and measurable variable. *The manufacturing-based approach* focuses on conformance to internally developed specifications that often are driven by productivity and cost containment goals. *User-based definitions* start with the premise that quality lies in the eyes of the beholder. These definitions equate quality with maximum satisfaction. This subjective, demand oriented perspective recognizes that different customers have different wants and needs.

Value-based definitions define quality in terms of value and price. By considering the trade-off between performance and price, quality comes to be defined as “affordable excellence.” The User-based definitions of service quality has received considerable attention from researchers. A product or service is considered of quality when it fulfills customer’s expectations. Goods being tangibles, made up of objectively quantifiable attributes or ingredients, permits objective measurement of quality. Objective quality refers to the technical superiority or excellence of a product against measurable and verifiable standards. However, difficulties arise when, one tries to define quality in services based on the same discrepancy concept, because service characteristics differ from product characteristics.

Quality management has had many different meanings over the years. In 1900s, quality meant inspection, used to ensure quality products. In the 1940s, statistical methods were first used to control quality within the natural variation of the process. In the 1960s, the meaning of the term quality management was expanded to include the entire organization. Now, quality is taking on a broader meaning including continuous improvement, competitive advantage and customer focus. And through the years, the definition of quality has also changed from the producer-oriented “up to specification” to the consumer-oriented “fit for use” until the present day when the most popular expression is “satisfying the consumer’s needs”. What is lacking is the ability to select which quality factors are to be provided and to understand how a quality factor is related to customer satisfaction.

Much of the quality management practitioner literature has its origins in the prescriptive principles of quality gurus including Deming, Juran, Feigenbaum, Ishikawa and Crosby. Also, the

Baldrige Award criteria provide an additional framework for quality management practices. Juran (1992) defines quality as “fitness for use”. He contends that the product must conform to the needs and expectations of the end users. To explain his definition of quality further, Juran uses five dimensions: quality of design, quality of conformance, availability, safety, and field use. His major focus is on applying quality concepts and tools to enhance product features and reduce product deficiencies. However, the dominance of the goods manufacturing-oriented conformance to specifications definition has given way to the broader customer-based definition of quality. The most commonly used definition of quality currently is the extent to which goods or services meet or exceed customer expectations (Buzzell and Gale, 1987; Gronroos, 1990; Parasuraman, Zeithaml, and Berry, 1990).

2.3 Defining Service Quality

Service quality is the consumer’s judgment about an entity’s overall excellence or superiority (Parasuraman, Zeithaml, and Berry, 1986). It is a form of attitude, and results from a comparison of expectations to perceptions of performance received.

Over the past two decades, researchers have devoted considerable attention to studying service quality as perceived by the consumer. The movement towards quality had started to spread from the manufacturing sector to the service sector. Much of the initial work in developing a model to define and assess service quality has been conducted by Parasuraman, Zeithaml, and Berry (1985). According to these scholars service quality is determined by the differences between customer’s expectations of services provider’s performance and their evaluation of the services they received.

Asubonteng, McCleary & Swan (1996) defined service quality as “the difference between customers’ expectations for service performance prior to the service encounter and their perceptions of the service received”. Similarly, Gefan (2002) defined service quality as the subjective comparison that customers make between the quality of the service that they want to receive and what they actually get. According to Lewis and Booms (1983), service quality is a measure of the degree to which the service delivered matches customer expectations. In all these definitions we notice that there are two main things closely related to services which are expected quality and experienced quality.

According to Parasuraman, Zeithaml, and Berry (1988), service quality has become a great differentiator and the most powerful competitive weapon which many leading service organizations possess. Lewis et al. (1994) summarized the major benefits relating to service quality as:

- Satisfied and retained customers and employees;
- Opportunities for cross-selling;
- The attraction of new customers;
- Development of customer relationships;
- Increased sales and market shares;
- Enhanced corporate image;
- Reduced costs and increased profit margins and business performance.

2.4 Perception of Service Quality

Perceptions are always considered in relation to expectations (Zeithaml, Bitner and Gremler, 2009:87). Perceptions are formed through customers' assessment of the quality of service provided by a company and whether they are satisfied with the overall service (Zeithaml and Bitner, 2003, p.84). (Zeithaml, Bitner and Gremler, 2009:102) Zeithaml and Bitner (2003) argue that because perceptions may shift over time and therefore it is necessary for companies to continually assess customer perceptions (Zeithaml and Bitner, 2003:85).

Perceived service quality has been defined as the consumer's global attitude or judgment of the overall excellence or superiority of the service. Perceived service quality results from comparisons by consumers of expectations with their perceptions of service delivered by the suppliers (Lewis *et al.*, 1994; Takeuchi and Quelch, 1983; Zeithaml, 1988). It is argued that the key to ensuring good service quality perception is in meeting or exceeding what customers expect from the service. Thus, if perception of the actual service delivered by the supplier falls short of expectation, a gap is created which should be addressed through strategies that affect the direction either of expectations or perceptions, or both (Parasuraman *et al.*, 1985; Zeithaml *et al.*, 1990).

Customer expectations are beliefs about a service that serve as standards against which service performance is judged (Zeithaml *et al.*, 1993); what customers think a service provider should offer rather than what might be on offer (Parasuraman *et al.*, 1988). Expectations are formed from a variety of sources such as the customer's personal needs and wishes (Edvardsson *et al.*, 1994),

the customer's personal philosophy about a particular service, by promises (staff, advertising and other communications), by implicit service promises (such as price and the tangibles associated with the service), by word-of-mouth communication (with other customers, friends, family and experts), as well as by past experience of that service (Zeithaml and Bitner, 1996).

2.5 Customer Satisfaction

Customers will always assess the services they experienced by comparing them with whatever they wish to receive. According to Kotler (2003), satisfaction is a person's feelings of pleasure or disappointment resulting from comparing a product's perceived performance in relation to his or her expectations. Here we see that there is a close relationship between service quality and customer satisfaction because they seem to be measured in terms of the difference between perceived performance and expected performance. Milbourn (1998) suggests that the economic success of companies fluctuates with the quality of service that is offered. They report that dissatisfied customers rarely complain. Instead, most dissatisfied customers simply purchase from another store. Across industries, service organizations who deliver high quality service consistently receive repeat customers.

2.6 Loyalty

There are several definitions of customer loyalty. Loyalty refers to a favorable attitude towards a brand in addition to purchasing it repeatedly (Day, 1969); a relationship between relative attitude towards an entity and repeat patronage behavior (Dick and Basu, 1994); a situation when repeat purchase behavior is accompanied by a psychological bond (Jarvis and Wilcox, 1977); and repeat purchase intentions and behaviors.

Research into customer loyalty has focused primarily on product-related or brand loyalty, whereas loyalty to service organizations has remained underexposed (Gremler and Brown, 1996). Frequently, a high positive correlation between the constructs of satisfaction and product loyalty is reported. With regards to service loyalty, perceived service quality is often viewed as a key antecedent (Dick and Basu, 1994). However, there are a number of reasons why findings in the field of product loyalty cannot be generalized to service loyalty (Keaveney, 1995; Gremler and Brown, 1996). Service loyalty is more dependent on the development of interpersonal relationships as opposed to loyalty with tangible products (Macintosh and Lockshin, 1998).

Customers will remain loyal to a service organization if the value of what they receive is determined to be relatively greater than that expected from competitors (Zeithaml & Bitner, 1996). Customer's positive emotions may lead to positive word-of-mouth behavior, while negative emotions may result in complaining behavior. Emotions tend to have an influence on quality perceptions and customer behavior (Liljander and Strandvik, 1997). While service quality has proved to be an essential ingredient to convince customers to choose one service organization over another, many organizations have realized that maintaining excellence on a consistent basis is imperative if they are to gain customer loyalty.

2.7 Service Quality and Customer Loyalty

Little empirical research has focused explicitly on the relationship between service quality perceptions and customer loyalty. With regards to behavioral intentions in a services setting, Zeithaml et al. (1996) proposed a comprehensive, multi-dimensional framework of customer behavioral intentions in services. This framework was comprised of the following four main dimensions:

- 1) Word-of-mouth communications;
- 2) Purchase intention;
- 3) Price sensitivity; and
- 4) Complaining behavior.

Leading service organizations strive to maintain a superior quality of service in an effort to gain customer loyalty (Zeithaml & Bitner, 1996); thus, a service organization's long-term success in a market is essentially determined by its ability to expand and maintain a large and loyal customer base. The challenge for today's organizations is not merely to reach the top, but to stay there. If that is an organization's aim, its primary focus should be not merely to attract customers, but to obtain their loyalty for the present and for the long term. In reality, customers are inherently loyal and seek a loyal relationship. Customers have a greater need to maintain a relationship with the service because of the unique features inherent in services, namely intangibility, inseparability of production and consumption, heterogeneity and perishability.

2.8 Service Quality Measurement

Many researchers have recognized the need to develop distinct and valid measures of service quality. In management literature, different models technical and functional quality model by

Grönroos (1984); GAP model by Parasuraman *et al.* (1985); attribute service quality model by Haywood-Farmer (1988); synthesized model of service quality by Brogowicz, Delene and Lyth, (1990); attribute and overall affect model by Dabholkar (1996); the P-C-P attributes model by Philip and Hazlett (1997); internal service quality model by Frost and Kumar (2000); Lehtinen and Lehtinen (1991) also introduced a three dimensional approach comprised of physical quality, interactive quality, and corporate quality (pp. 288-290) etc. have been developed in order to find the determinants of the concept of service quality as well as the appropriate quality measurement techniques.

In this review of literature it is important to focus on two models: Service quality, customer Value and Customer satisfaction model (Oh, 1999) and the Gap model (Parasuraman et al. 1985) because it is used to measure service quality and to establish relationship between service qualities and repurchase intention (loyalty).

2.8.1 Service Quality, Customer Value and Customer Satisfaction Model (Oh, 1999)

Oh (1999), proposed an integrative model of service quality, customer value, customer satisfaction and loyalty. The model focuses mainly on post purchase decision process. The model incorporates key variables such as perceptions, service quality, consumer satisfaction, customer value and intentions to repurchase. The model provides evidence that customer value has a significant role in customer’s post-purchase decision-making process.

It is an immediate antecedent to customer satisfaction and repurchases intentions. Results also indicate that perceived price has a negative influence on perceived customer value and no relationship with perceived service quality.

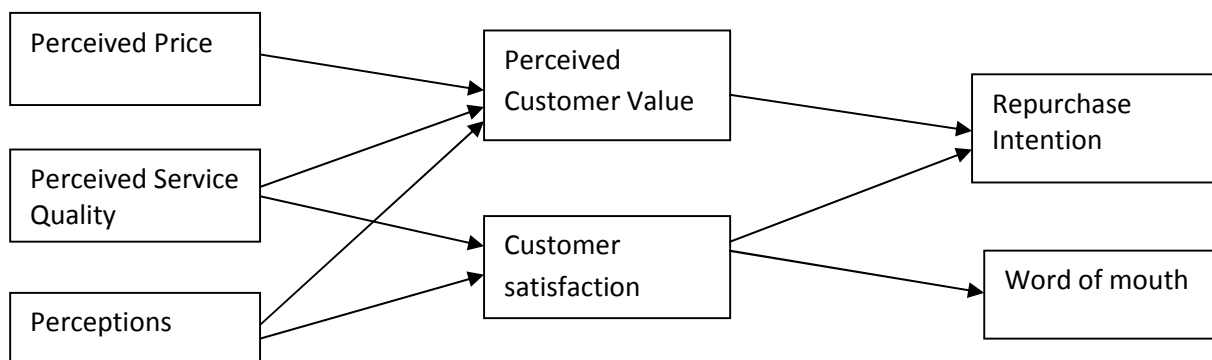


Figure 1 Service Quality, Customer Value and Customer Satisfaction Model Source: Oh, (1999)

2.8.2 Gap Model

Parasuraman et al. (1985) proposed that service quality is a function of the differences between expectation and performance along the quality dimensions. They developed a service quality model based on gap analysis. The various gaps visualized in the model are:

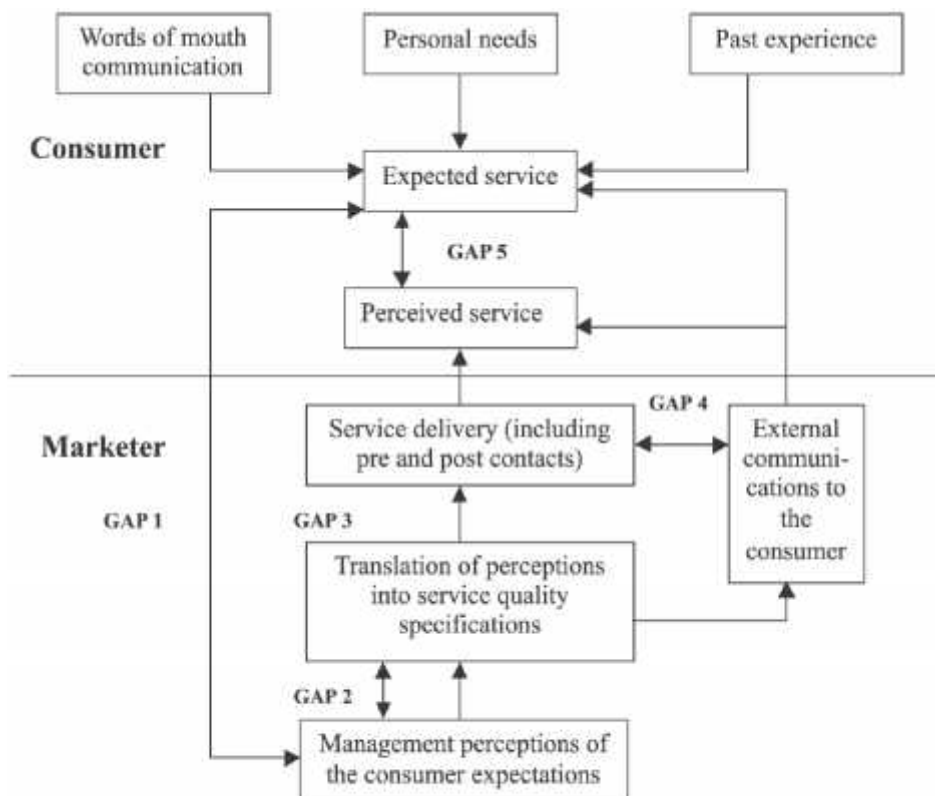
Gap 1: Difference between consumers' expectation and management's perceptions of those expectations, i.e. not knowing what consumers expect.

Gap 2: Difference between management's perceptions of consumer's expectations and service quality specifications, i.e. improper service-quality standards.

Gap 3: Difference between service quality specifications and service actually delivered i.e. the service performance gap.

Gap 4: Difference between service delivery and the communications to consumers about service delivery, i.e. whether promises match delivery?

Gap 5: Difference between consumer's expectation and perceived service. This gap depends on size and direction of the four gaps associated with the delivery of service quality on the marketer's side.



Source: Parasuraman et al. (1985)

Figure 2:- Gap Model

2.9 Dimensions of Service Quality

It has been generally agreed that service quality has many dimensions (Gronroos 1984; Parasuraman *et al.* 1985). However, there is no consensus on the exact nature and content of these dimensions (Brady & Cronin 2001). Different scholars have different definitions and focuses about the dimensionality of service quality. Scholars have varied as to the number of dimensions included in each of their models.

The most popular conceptualization of service quality is Parasuraman *et al.*'s (1985) SERVQUAL model. Originally containing 10 dimensions, Parasuraman *et al.* (1988) later reduced the SERVQUAL instrument to its present five dimensions: a) tangibles; b) reliability; c) responsiveness; d) assurance; and e) empathy (pp. 12-37). Gronroos (1984) suggests that perceived service is the result of a consumer's view of a bundle of service dimensions, some of which are technical in nature and some of which are functional in nature. Technical quality answers the question as to what the consumer actually receives. Functional quality answers the question as to how the consumer receives the service.

Lehtinen and Lehtinen (1991) proposed two approaches to the analysis of service quality and its dimensions. The first approach contains three dimensions consisting of physical quality, interactive quality and corporate quality. Physical quality refers to both the quality of materials and facilities and is representative of Gronroos' (1984) technical and functional quality.

Interactive quality pertains to interactions that take place during service delivery between: a) the customer and service personnel; b) the customer and other customers; and c) the customer and equipment (e.g., technology). Corporate quality concerns how customers view the company's image and is representative of Gronroos' (1984) dimension of corporate image (pp. 287-303). Lehtinen and Lehtinen's (1991) second approach to the analysis of service quality and its dimensions was comprised of two dimensions labeled process quality and output quality. Process quality is the customer's personal and subjective judgment of his/her participation in the service production process. Output quality is the consumer's evaluation concerning the result of the service. Output quality is measured by not only the customer, but also by people in the surrounding environment (pp. 287-303).

Dabholkar et al. (1996) suggested that retail customers form evaluations of quality at three different levels: a) a dimension level; b) an overall level; and c) a sub-dimension level. Five dimensions of retail service quality are proposed: a) physical aspects; b) reliability; c) personal interaction; d) problem solving; and e) policy.

Brady and Cronin's (2001) model of service quality had three primary dimensions: a) interaction quality; b) physical environment quality; and c) outcome quality. Interaction quality refers to the perceptions of the customer concerning the interpersonal interactions that take place during service delivery. The sub-dimensions of this dimension suggest that an employee's attitude, behavior, and expertise help to shape a customer's perceptions of interaction quality. Physical environment quality focuses on the influence that the surrounding environment or physical facilities have on the perceptions of the customer. Customer perceptions of the facility design, ambient conditions, and social conditions of the physical facility directly influence the quality of the physical environment. Outcome quality refers to a customer's perceptions of what he or she is left with after the service is rendered. Sub-dimensions of outcome quality include perceptions of waiting time, tangibles and valence (34-49).

Parasuraman et al., (1988) define the SERVQUAL Dimensions as follows:-

1. **Tangibles:** the appearance of the company's physical facilities, equipment, and personnel. If a restaurant, for example, is dirty, not presentable and the employees are disheveled. Looking, the tangible quality will be low.
2. **Reliability:** The ability of the company to perform the promised service dependably and accurately without errors. For example, if a restaurant takes a reservation for 7:00pm and you are not seated promptly or they bring the wrong meal, the Reliability will be low. Note that Reliability for service (which is more accurately called conformance) is defined differently than Reliability for manufacturing.
3. **Responsiveness:** the willingness of the company to provide service the prompt and helpful to the customer. In the restaurant, for example, the meal should be provided in a timely fashion and with help when needed to understand the menu.
4. **Assurance:** The knowledge and courtesy of the company's employees and their ability to convey trust and confidence.
5. **Empathy:** The caring, individualized attention the company provides to its customers.

2.10 Conceptual Framework

The conceptual framework is an approach showing either in graphical or in a narrative forms the main points to be studied in a work. The research model for the present study is developed based on the combination of two theories or models. As indicated in the literature, the Service quality, customer value and customer satisfaction model (Oh, 1999) is used to develop the relationship between perceived service quality and loyalty dimensions namely; repurchase intention and word of mouth. The Gap model again is used to measure the perceived service quality among the insurances. Service quality perceived by the customer implies customer satisfaction, which enhances the customers' intention to return and develop positive word of mouth. Zeithaml et al. (1996) indicated that in services marketing literature, loyalty is also viewed as a multiple construct. Based on their study, four dimensions of loyalty namely; repurchase intention; word of mouth communications, price sensitivity, and complaining behavior were considered for measuring loyalty in this study

Moreover, the SERVQUAL model has been proven to be the best model to measure service quality in service sectors especially with the customer perspective. This idea generates an assumption that the five dimensions of SERVQUAL model could have a direct relationship with customer satisfaction. The difference between expectations and perceptions is called the gap which is the determinant of customer's perception of service quality.



Figure 3:- Conceptual framework on customer satisfaction and loyalty

CHAPTER THREE

RESEARCH METHODOLOGY

3.1 Introduction

This research is to identify the gap between perceptions and expectations of external customer on service dimensions. The research is a field study because it examines perception and expectation of customers in their natural transaction. The variables under study are neither controlled nor manipulated, and no artificial setting is crafted for this study. The unit of analysis for this study is customers as respondents.

3.2 Research Design

The study adopted a purely descriptive research approach as it sought to establish the relationship between variables. (i.e Customer satisfaction and Loyalty). According to Gay (1992), descriptive research involves collecting data in order to answer research questions or to test hypotheses concerning the current status of the subject of the study. Thus this approach was adopted because it sought to describe the situation as it was with regards to customer satisfaction & loyalty, how the former impacts on the latter and finally the standards of service quality and customer care practices in Nyala Insurance S.C

3.3 Sample Size and Sampling Technique

The study unit of this research is the client of Nyala Insurance S.C, and the unit of analysis is Perception. Therefore, the population size of this study based in Addis Ababa is 17,489.00 (NISCO Annual report, 2016), which is given by the total sum of the above mentioned study units that are served by the offices of NISCO resided in Addis Ababa.

3.3.1. Sampling Method and Sampling Procedure

Due to the limited nature of resource availability, it was difficult to treat all members of the population as a source of data for the study and, hence, sampling is required. The representation

of the population of the study made use of the non- probability sampling method which is used for acquiring primary data from sample clients through self-administered questionnaires.

Yamane Taro (1967) provides a simplified formula to calculate sample size. This formula is used to obtain manageable sample size from such large population taking into account 95% confidence level. Hence, the sample size is computed using the following formula:-

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

Where:

n = size of sample

e = maximum tolerable sampling error=5% N= population size where: 17,489

n = size of sample

Consequently, the ultimate figure is computed as:

N= 17,489 e= 0.05

$$n = \frac{17,489}{1+17,489(0.05)^2} = \frac{17,489}{45} = 389$$

Accordingly, a total of 389 insurance policy holders were selected from all 14 branches located in Addis Ababa. And, convenience sampling method is applied by distributing the questioners equally to the customers found at the counter of each branch.

3.4 Data collection Method

For the proper achievement of the objectives of the study; the researcher used primary data source. Primary data is collected using questionnaires. Questionnaires are distributed to the customers of the fourteen branches out the total of seventeen branches. The three branches excluded due to their recent establishment and the branches don't have large number of clients. Thus, to find adequate data the researcher selected the fourteen branches based on their service year which was above three years.

The service quality dimensions is measure using Likert scale with five response categories (Not important, Less important, Neutral, Important and very important used for expectation of

customers and Very dissatisfied, Dissatisfied, Neutral, Satisfied and Very satisfied used for perception of customers. “The Likert scale method was preferred to make questions interesting to respondents and thereby enhance their cooperation, ultimately to ensure maximum response rate”. Robson . (2002).

Structure of Research Questionnaire

The questionnaire that used in this study divided into three sections:

Section A: Demographic Information

This section used for statistical reasons. It consist seven questions to find out the demographic features of the respondents such as age, gender, marital status, career, academic qualification and the like.

Section B: Customers’ Expectation and Perception

This section used to identify customers’ expectation and perceptions by using 22 service attributes on five-point interval scale.

Section C: Loyalty

In the last section of the questionnaire, customers asked the overall judgment of service quality and loyalty based on a five- scale interval.

3.5 Data Analysis Method

In the analysis part, the statistical program named SPSS used. Gap analysis (perception minus expectation) performed to measure the service quality in insurance industry. The research also used descriptive statistics and correlation analysis to determine the relationship between service quality and loyalty.

Descriptive analysis

The descriptive statistical results presented by tables, frequency distributions and percentages to analyze the data. This was done through summary statistics, which includes the mean values and percentages which were computed for each variable in this study.

Pearson Correlation analysis

In this study Pearson’s correlation coefficient was used to determine the relationships between service quality dimensions (Tangibility, reliability, responsiveness, assurance and empathy) and customer loyalty.

3.6 Validity Analysis

Validity refers to the degree to which a statistical instrument measures what it is intended to measure. It emphasizes the accuracy of a measurement instrument (Cooper and Schindler, 2006). There are two types of validity, namely: internal or external.

External validity: This refers to the extent to which the findings and results of a study could be generalized to other particular research settings and other sample. In this work, to ensure external validity, the findings and results generalized to the country context, and specifically to the insurance service.

In this study the following kinds of internal validity will be ensured:

Face validity: Face validity refers to the extent to which a logical relationship exists between the variables and the proposed measure in the study. Face validity was ensured in this study since it seemed logical to the researchers to measure and analyze customer satisfaction with service quality using a questionnaire-based survey.

Criterion validity: This refers to the extent to which a measurement instrument strongly correlates with some other criterion or standard that is believed to accurately measure the variable under consideration. Thus in this study, the questionnaire developed based on with other similar validated service quality instruments developed by Parasuraman et al., (1988) and Zeithaml et al.,(1996) that have been developed and used in several studies. This was to ensure that the items in the questionnaire favorably compares with the validated ones.

Construct validity: This refers to the extent to which a measurement instrument is grounded in theory. In order words, the instrument must have existing conceptual or theoretical bases in the literature. In this work, this construct validity was ensured by deriving the determinants of customer satisfaction and the dimensions of service quality& loyalty from existing literature.

3.7 Reliability Analysis

The Cronbach's Alpha estimate indicates how highly the items in the questionnaire are interrelated in order to determine reliability of the instrument (Hayes, 1998). Nunnally (1978) said that the Alpha which is more than 0.7 indicated a high liable. Therefore the under below table show that the Cronbach's Alpha result for this study is 0.72 by using SPSS instrument.

Table I: - Reliability test result

Cronbach's Alpha	N of Items
.72	44

Source: - Own survey 2017

CHAPTER FOUR

DATA PRESENTATION, ANALYSIS AND INTERPRETATION

4.1 Introduction

This chapter reveals the results of the study. The data collected through the means of questionnaires are analyzed & interpreted using the SPSS software. Detailed analysis of the results derived from this analysis is presented in this chapter. It took the researcher one month in the distribution and collection of the questionnaires. Three hundred eighty nine (389) questionnaires were distributed among 14 branches, of this 311 were returned but 78 of them were rejected as a result of so many omissions in filling.

First, the descriptive statistics of the research population is presented. Second, service quality gap is measured and compared among the five dimensions. Finally, correlation analysis is conducted to determine the relationship between service quality and loyalty in NISCO.

4.1.1 Demographic Profile of Nyala Insurance Respondents

The demographic backgrounds of the sample respondents in seven parameters are presented to understand the customer profiles i.e., gender, age, education, occupation, policy types and terms, and premium amounts. Three hundred eighty nine (389) questionnaires were distributed to fourteen branches of Nyala insurance with 26/27 questionnaires in each branch. A total of 311 questionnaires were returned i.e. 80% of the total distributed questionnaires used for the analysis. Table II depicts the sample profile of the respondents for Nyala Insurance. Accordingly about 97(31.3%) of the respondents are females and the rest 214(68.8%) are males. This shows that majority of the respondents are male.

It is also evident from the table that the age group 30-45 years is dominant insurance users which are 53.1% of total respondents. Respondents with age group of less than 30 years account for 25% of total respondents. The rest 18.8% and 3.1% are respondents in the age group of 46-60 and

greater than 60 years respectively. The marital status of respondents also shows that 175(56.3%) are married and 117(37.5%) are single while 19(6.3%) persons have a different status.

Table II:-Profile of the Respondents

	Parameters	Frequency	Percentage
Gender	Male	214	68.8
	Female	97	31.3
Age	<30	78	25.09
	30-45	165	53.05
	46-60	58	18.76
	>60	10	3.1
Marital Status	Married	175	56.3
	Single	117	37.5
	Other	19	6.3
Education	Below Diploma	39	12.54
	Diploma	78	25.09
	Degree	165	53.05
	Masters & above	29	9.32
Occupation	Salaried	185	59.4
	Self-employed	116	37.5
	Retired	0	0
	Other	10	3.1
Type of policy purchased	Assets	126	40.6
	Business	88	28.1
	Staff	39	12.54
	Other	58	18.76
Policy Term (in years)	<1year	58	18.76
	1-5years	204	65.6
	5-10years	39	12.54
	10-20years	10	3.1

	>20 years	0	0
Premium Amount (in Birr)	< 1000	0	0
	1000-5000	213	68.8
	5000-10000	49	15.6
	>10000	49	15.6
All Samples		311	100

Source: Own survey 2017

It is observed from the same table that, 39(12.54%) respondents are below diploma holders, 78(25.09%) respondents are diploma holders, 165(53.05%) are degree holders, whereas 29(9.32%) respondents have masters and above. This indicates that most of the insurance customers are educated and have a good understanding of quality insurance service.

Taking into account the occupation of the customers, salaried persons dominate the sample with 185(59.4%) respondents. 116(37.5%) are self-employed customers and 10(3.1%) respondent with no occupation.

The policy term indicates the customer's service experience with Nyala insurance. More than half of the respondents 204(65.6%) indicated that they have 1-5 years of service experience with the insurance. 49(15.6%) and 10(3.1%) have more than five years and less than one year experience respectively. This indicates that more than 80% of the respondents of the insurance have longer service experience to measure the service quality.

Table III: - Cross Tabulation of Type of Policy Purchased and Policy Term

Parameters		Policy term				Total
		<1year	1-5 years	5-10 years	10-20 years	
Type of policy Purchased	Asset	10	117	0	0	127
	Business	29	29	19	10	87
	Staff	0	29	10	0	39
	Other	19	29	10	0	58
Total		58	204	39	10	311

Source: Own survey 2017

The above table depicts the cross tabulation of two variables; Type of policy purchased and Policy term. It is indicated that purchase of policy is distributed among all types. However, the most purchased type of policy is Assets with 41% of the total type of policy purchased. As indicated in the table also the most preferred policy term is 1-5 years with 65.6%.

4.1.2 Expectation

Based on the results obtained from SPPS Annex I present the frequencies and percentages on expectation of Nyala respondents measured on five point scale (not important – Very important) on the five dimensions of service quality. Majority of the respondents believe that tangibility dimension attribute are important parts of customer service. For instance 202 (65%) of the respondents believe that convenience of location is very important.

The respondents also indicated that appealing physical feature 33.8%, use materials and modern network system (39.2%) is important. 49 (15.8%) ,57 (18.3%) & 22 (7.1%) respondents indicated that appealing physical features, appealing materials and use modern looking equipment are less important to measure quality of service for an insurance respectively. 144(46.3%) of the respondents however, indicated that use modern looking equipment is a very important attributes in service quality measurement. From the total respondents 185(59.5%) customers think that keeping promises is a very important attribute.

Providing appropriate solutions is very important to 168(54.0%) of the respondents while for 96(30.9%) respondents it is only important. 155(49.8%) of the respondents also think that performing services right the first time is very important. Among the respondents 165(53.1%) believe that providing service at schedule time is very important attributes in delivering quality service.

From responsiveness dimension, majority of the respondents indicated that the attributes are very important. For example 187(60.9%) indicated that prompt customer service attribute is very important and 186(59.8%) respondents staff responsiveness is also very important attribute.

In assurance dimension, staff knowledge to answer customer questions and employees friendly are a major attributes by scoring 71.7% & 64.3% respectively. 214(68.8%), 203(65.3%) , 211(67.8%) & 213(68.5%) of the total respondents replied that employee willingness,

understanding individual customer need and employee giving personal attention respectively are a very important attributes in empathy dimension.

4.1.3 Perception

Annex II presents the frequencies and percentages on perception of Nyala respondents measured on five point scale (very dissatisfied – Very satisfied) on the five dimensions of service quality.

As shown on annex II in tangibility dimension, similarly 29 (9.3%) of the respondents are very dissatisfied and dissatisfied in branch convenient location attribute. And also 136(43.7%) of the respondents perceived that satisfied with the location of the branch. From the total respondents 118 (37.9%) of them are dissatisfied with Nyala Insurance's materials used in service delivery. In reliability 6.4% and 15.8% of the respondents indicated that they are very dissatisfied and dissatisfied as the staffs are kept their promised service time, while 52.7% of the respondents are satisfied. 77 (24.8%) of the respondents indicated that they are dissatisfied with the insurance's in providing appropriate solution to problem. However, 147(47.3%) respondents are satisfied.

From the responsiveness dimension attributes, majority of the customers are dissatisfied with the information they get from the staffs about the service performance. 165(53.1%) of the respondents are satisfied with the insurance prompt customer service.

In related with the staff knowledge to answer customers questions 46(14.8%) respondents are dissatisfied while 112(36.6%) of them are very satisfied with this attribute. 165(53.1%) of the respondents indicated that they are satisfied employees friendly with them at service performance.

In empathy dimension 72(23.2%) customers indicated that they are dissatisfied with the operating hour of Nyala insurance while 130 (41.8%) of them are satisfied. 10(3.2%) of the respondents indicated that they are very dissatisfied & dissatisfied with employees understanding customer individual needs.

4.2 Service Quality Gap

This part of the paper presents analysis of perception-expectation gap based on customers' survey. The general objective of this study is to conduct an analysis of service quality and to determine the customer satisfaction on service quality delivery of NISCO.

The mean expectation, the mean perception and the gap on all the 22 statements (attributes) for insurances are presented. Gap = Perception – Expectation. Note also that Perception is measured on a scale 1-5 where; 1= Very dissatisfied and 5= Very satisfied. And Expectation is measured on a scale 1-5 where; 1= Not important and 5= Very important

The overall SERVQUAL score is the result of average perception score minus the average expectation score derived from the SERVQUAL instruments. Annex III shows the service quality gap on each individual item under respective dimensions for NISCO. When we take a closer look at the individual items, it is found that the individual statements under each dimension have a negative service quality gap implying that the overall expectation of the insurer's service quality at NISCO falls short of expectations.

Accordingly the average unweighted score of NISCO is -0.64 (Annex 3). All the five dimensions recorded a negative service quality gap. This indicates the insurers' service cannot meet customers' expectation.

Tangibility has a gap score of -0.67 (Annex 3). Among all the attributes the insurance use of modern materials & equipments and convenient location of branches has comparatively high gap score of -1.13 & -0.83 respectively (Annex 3). However, the insurer has a relatively low gap in relation to "visually appealing materials" with a score of -0.29.

The dimension, Reliability has a score of -0.78 (annex 3) which indicates that the branches fail to meet customers' expectation on this dimension. Insurance, ideally, should provide its service as promised. But the gap score for this attribute is -1.04 (Annex 3) indicating that the customers do not have confidence in the service promised by the insurer. But the attribute "insurance insist error free records" has a very low score gap of -0.57 (Annex 3) which shows apposite side of the insurance company having a good recording system.

Responsiveness has a gap score of -0.82 (Annex 3). With regard to this dimension, "informing customers at the exact time of service performance" has a gap score of -1.30 demonstrating the insurer's staffs are not able to inform customers at the exact time of service performance. However staffs are not too busy to respond to customers request with a gap score of -0.39. Generally this dimension has the largest score from the five service quality dimensions, this shows that NISCO or the insurer does not achieve its responsiveness.

Assurance is another service quality dimension with an average gap score of -0.31 (Annex 3). The “knowledge of staff to answer questions” attribute has score of -0.73 (Annex 3) which has the highest score from the other attributes stated under this dimension. Attributes like: “Behaviors of staff instill confidence in customers”, “Customers feel safe in their transactions” and “employees friendly with the customers” have a score of -0.11, -0.18 and -0.19 respectively (Annex 3). This dimension has a low gap score and it shows that the insurer has a good performance in this dimension compared to others.

The last dimension Empathy has an average gap score of -0.61 (Annex 3) indicating the insurer’s deficiency at this dimension. Specifically, ‘employees understand individual customer’s need’ attribute has a gap score of -0.9, and also the attribute ‘convenient operating hour’ has a gap score of -0.60. This shows that the insurer doesn’t consider the specific need of customers and also the operating hour is inconvenient to customers.

Table IV: - Service Quality gap

	Unweighted score 0.64
	Gap(P-E)
Tangibility	-0.67
Reliability	-0.78
Responsiveness	-0.82
Assurance	-0.31
Empathy	-0.61

Source: Own survey 2017

From the above Table III, the study analyzes in terms of the gap model proposed by Parasuraman et al. (1985). The negative sign indicates that there is a difference between service quality specifications and service actually delivered (Gap 3) and a difference between service delivery and the communications to consumers about service delivery. (Gap 4). This two gaps can be specifically seen under the two dimensions namely, Reliability and Responsiveness.

Singh et al. (2014) stated that the four dimensions except reliability have influence on customer

perception of service quality. Whereas in this study all the five dimensions has an impact on perceived service quality.

4.3 Analysis of Customer’s Satisfaction- Loyalty Relationship

4.3.1 Correlation Analysis for Nyala Insurance

The result of the correlation analysis is presented in table IV. The highlighted values are the correlated dimensions (attributes) in the table. Here it is important to note the relationship indicates that both dimensions of service quality and loyalty move in the same direction.

‘The branch location is convenient’ is positively correlated to ‘I plan to continue to be a customer of this insurance’ (Repurchase Intention).

The interpretation is that the more tangible the insurance is, the more loyal the customer will be and vice versa. Attribute ‘The branch location is convenient’ is also positively correlated with ‘I plan to tell others about the quality of service of this insurance’ (Word of mouth) which indicates that customers will spread positive word of mouth if the company has a convenient location.

It can also be seen from the table below that the attribute of reliability which is ‘The insurance performs service right the first time’ is positively correlated to attribute ‘I plan to tell about the quality of service of this insurance to others’. This implies that timeliness contributes to positive word of mouth and the reverse is true.

Table V:-Output of Correlation Analysis (Nyala)

		Loyalty
Tangibility	Pearson correlation	.187**
	Sing. (2-tailed)	.000
	N	311
Reliability	Pearson correlation	.261**
	Sing. (2-tailed)	.000
	N	311
Responsiveness	Pearson correlation	.342**

	Sing. (2-tailed)	.000
	N	311
Assurance	Pearson correlation	.169**
	Sing. (2-tailed)	.000
	N	311
Empathy	Pearson correlation	.401**
	Sing. (2-tailed)	.000
	N	311

** Correlation is significant at the .01 level (2- tailed)

Source: Own survey 2017

All dimensions have positive relationship with loyalty dimensions. However from the average score of each dimension, empathy pearson correlation is 0.401 which is higher than the four dimensions as stated on the table. This indicate that among the other dimensions, empathy have a strong relationship with customer's loyalty. Furthermore, pearson correlation of 0.342 for responsiveness, indicate that this dimension is significantly related to loyalty.

In general leading service organizations strive to maintain a superior quality of service in an effort to gain customer loyalty (Zeithaml & Bitner, 1996); thus a service organization's long-term success in a market is essentially determined by its ability to expand and maintain a large and loyal customer base. Therefore, having a strong relationship with all dimensions shown on Table IV identified by this study direct an organization to focus on maintain its service quality to obtain a loyal customer for the present and for the long term.

CHAPTER FIVE

SUMMARY, CONCLUSION & RECOMMENDATIONS

This study tried to measure the perception of service quality from the customers' perspective and also determine the relationship between service quality and loyalty by conducting a multi-dimensional analysis. In this chapter major finding, conclusions and recommendations are presented based on the analysis and interpretations made at the pervious chapter.

5.1 Summary of Major Findings

- Demographic background of the sample indicates that majority of the respondents are male with 69% in relation to age group of 30-45 years is dominant (53.1%). Most of the respondents are well educated with majority having Degree and higher educational level. Moreover, the results of the study reveal that the respondents have 1-5 years of customer relationship with NISCO (65.6%). Most respondents purchased Asset policy type insurance.
- The unweighted average score is -0.64. The dimension Tangibles has a gap score of -0.67 'The insurance uses modern materials & equipments' has the highest negative score (-1.13.). The study also reveals that NISCO has relatively worrisome. Reliability score as judged by the respondents' average score of -0.78 the attribute "provide service at the time they promised to do so" and "the insurance provide appropriate solution to problems" has a gap score of -1.04 each.
- Responsiveness has a gap score of -0.82 among the attributes "informing customers' right the exact time of service performance "hasahighergapscore-1.3.The Assurance dimension at NISCO has a score of-0.31. Generally compared to others this dimension has the lowest score which shows that the insurer is performing better in this dimension.
- Empathy the fifth dimension has a gap sore of -0.61. Attribute 'employees understand individual customer's needs' has a gap score of -0.9 which indicates that the insurer has a negative aspect in understanding individual customer needs.

- In general, highest service quality gap is found for Responsiveness-0.82 followed by Reliability-0.78 and Tangibility -0.67. The other dimension more or less has a lower gap scores.
- Empathy and Responsiveness dimensions are related to loyalty dimensions in Nyala insurance. 'The insurance has employees who understand individual customer's need' is positively correlated to 'I plan to continue to be a customer of this insurance' (Repurchase Intention). Attribute 'Staffs are never busy to respond to customers' is also positively correlated with 'I plan to tell others about the quality of service of this insurance' (Word of mouth).

5.2 Conclusions

Delivering customer satisfaction is at the heart of every service provider. The most important aspect of the relationship between service providers and customers is that there is a gap between what customers want and what service providers offer. This is particularly true in case of services like insurances. The present study has been undertaken to measure the perception of service quality from the customers' perspective and also determine the relationship between service quality and loyalty. Based on analysis of the data and findings the following conclusions are drawn:

- The study demonstrates that the unweighted average gap scores are negative for each dimension/ attributes which indicates that the insurance are not able to meet customers' expectation or the customers are not satisfied with the services offered.
- At Nyala insurance the unweighted average gap score is -0.64 indicating that customer's expectations are not met. Responsiveness dimension has the largest gap score of (0.82) implying that the company's ability to respond well and at a reasonable time is not satisfactory for the customer. Reliability dimension is also with a large gap score of (0.78). Tangibility of the company is also with a large gap score of (0.67) which indicates that the company's locations, physical feature and use of modern service delivery office equipment and networking system is not as expected by the customers. Empathy

dimension is also the other dimension with a gap score of -0.61 implying that employees of NISCO fall short in individual customers need understanding and the operating hour is also not convenient for customers.

- A dimension with small negative score is Assurance (0.31) which indicates that NISCO staffs are friendly and knowledgeable to answer customer's questions. The results found from the analysis support the findings of Oh (1999), that perceived service quality is related to repurchase intention and word of mouth dimensions of loyalty. The findings also suggest that service providers need to satisfy their customers in order to improve their loyalty levels.

5.3 Recommendation

Given the recent situation that customers are becoming more aware of their expectations, and demand higher standards of services, insurance companies should be able to consider measuring their service quality and understand what factors contribute to customer satisfaction and more over loyalty. The present study contributes to our knowledge by providing support for the contention that there is a link between service quality and loyalty and how service quality is measured. Based on the findings of this study the following recommendations are proposed to help improve service quality at insurances.

- NISCO should improve its service quality dimensions by committed its resource in acquiring the needed logistics and equipments to facilitate the service, staff should show personalized attention to the client and etc
- NISCO should reduce the negative service quality gaps that are indicative of the facts that clients are dissatisfied in order to gain competitive advantage by focusing on continuous improvement.
- NISCO should strengthen the systems, processes and procedures to improve the service quality and to have satisfied customers and also to retain its customers with loyalty.

- NISCO should intensify its staff training programs, especially for those staff who interact with clients. The training should aim at equipping the employees to be more efficient and effective to deliver high standards of client care and service quality.

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Annex I: Data presentation on expectation

Dimensions	Attributes	Expectation											
		Not important		Less important		Neutral		Important		Very important		Total	
		F	%	F	%	F	%	F	%	F	%	F	%
Tangibility	The branch location is convenient	11	3.5	0	0	19	6.1	79	25.1	203	65	311	100
	Visually appealing physical features	0	0	49	15.0	50	15.6	105	33.5	99	31.5	311	100
	Appealing service delivery materials	0	0	57	18.3	49	15.8	137	44.1	65	21.0	311	100
	Use Modern looking equipment and network system	0	0	22	7.1	23	7.4	127	39.7	144	46.5	311	100
Reliability	Provide services just as they promise to do so	0	0	0	0	19	6.1	107	34.4	185	59.5	311	100
	The insurance provide appropriate solution to problems	0	0	0	0	47	15.1	95	30.9	165	53.1	311	100
	Performs service right the first time	0	0	0	0	49	15.0	107	34.4	155	49.5	311	100
	Provide service at scheduled time	0	0	19	6.1	20	6.4	107	34.4	165	53.1	311	100
	The insurance insist error free records	0	0	11	3.5	11	3.5	110	35.4	179	57.5	311	100
Responsiveness	Insurance staffs has inform customers the exact time of service performance	0	0	0	0	14	4.5	129	41.5	165	53.1	311	100
	Insurance prompt customer service	0	0	0	0	37	11.9	87	28	187	60.1	311	100
	Staffs are never busy to respond to customers	0	0	0	0	10	3.2	115	37	185	59.5	311	100
	Service done without delay	0	0	0	0	29	9.3	115	37.3	165	53.1	311	100
Assurance	Employees have knowledge to answer customers questions	0	0	0	0	39	12.5	69	22.5	203	65.5	311	100
	Staffs behavior instill confidence in customers	0	0	0	0	43	13.8	105	34.7	160	51.4	311	100
	Customers feel safe in their transaction	0	0	0	0	44	14.1	95	31.5	169	54.3	311	100
	Employees are friendly with customers	0	0	0	0	35	11.3	75	24.4	200	64.3	311	100
Empathy	Staffs are willing to help customers	0	0	0	0	10	3.2	87	28	214	68.8	311	100
	Staffs are consistently polite during customer service	0	0	0	0	10	3.2	95	31.5	205	66.3	311	100
	Insurance has employees who understand individual customer needs	0	0	0	0	10	3.2	90	29.9	211	67.9	311	100
	The insurance has convenient operating hour	10	3.2	10	3.2	39	12.5	125	40.5	125	40.5	311	100
	The insurance has employees who give personal attention	0	0	0	0	20	6.4	75	25.1	215	69.5	311	100

Annex II: Data presentation on perception

Dimensions	Attributes	Perception											
		Very Dissatisfied		Dissatisfied		Satisfied		Very satisfied					
		F	%	F	%	F	%	F	%	F	%	F	%
Tangibility	The branch location is convenient	39	9.3	39	9.3	39	12.5	100	40.7	75	25.1	311	100
	Visually appealing physical features	0	0	75	25.1	65	21.0	125	40.5	32	12.5	311	100
	Appealing Service delivery materials	0	0	42	15.5	107	34.4	135	43.4	27	6.4	311	100
	Use Modern looking equipment and network system	0	0	115	37.9	71	22.5	87	28	35	11.3	311	100
Reliability	Provide services just as they promise to do so	20	6.4	49	15.8	119	38.3	164	52.7	19	6.1	311	100
	The insurance provide appropriate solution to problems	0	0	77	24.8	67	21.5	147	47.3	30	9.7	311	100
	Perform service right the first time	19	6.1	20	6.4	115	37.0	157	50.5	67	21.5	311	100
	Provide service at scheduled time	20	6.4	20	6.4	105	33.8	164	52.7	49	15.8	311	100
	The insurance insist error free records	0	0	37	11.9	16	5.1	105	33.8	105	33.8	311	100
Responsiveness	Insurance staffs has inform customers the exact time of service performance	0	0	133	42.8	22	7.1	115	37.0	40	12.9	311	100
	Insurance prompt customer service	0	0	45	14.5	75	24.1	165	53.1	20	6.4	311	100
	Staffs are never busy to respond to customers	0	0	20	6.4	58	18.6	75	24.1	153	49.0	311	100
	Service done without delay	10	3.2	10	3.2	42	13.5	105	33.8	47	15.1	311	100
Assurance	Employees have knowledge to answer customers questions	0	0	16	5.1	63	20.3	91	29.3	112	36	311	100
	Staffs behavior instill confidence in customers	0	0	9	2.9	31	10	100	44.7	130	42.4	311	100
	Customers feel safe in their transaction	0	0	30	9.7	20	6.4	112	36	149	47.9	311	100
	Employees are friendly with customers	0	0	30	9.7	12	3.8	107	34.4	164	52.7	311	100
Empathy	Staffs are willing to help customers	0	0	22	7.1	20	6.4	117	37.6	145	46.5	311	100
	Staffs are consistently polite during customer service	0	0	29	9.3	39	12.5	117	37.6	125	40.5	311	100
	Insurance has employees who understand individual customer needs	10	3.2	10	3.2	87	28	115	37.0	58	18.6	311	100
	The insurance has convenient operating hour	0	0	72	23.2	52	16.7	130	42.4	52	16.7	311	100
	The insurance has employees who give personal attention	0	0	20	6.4	20	6.4	203	65.3	65	21.0	311	100

Annex III: Total gap analysis

Service Dimensions	S.N.	Attributes	Perception mean	Expectation mean	SERVQUAL Gap
Tangibility	1	The insurance location is Convenient	3.65	4.48	-0.83
	2	Visually appealing physical features	3.4	3.81	-0.41
	3	Appealing Service delivery materials	3.4	3.69	-0.29
	4	Use modern looking equipment and network system	3.12	4.25	-1.13
		Average score of dimension	3.39	4.06	-0.67
Reliability	5	Provide services just as they promise to do so	3.49	4.53	-1.04
	6	The insurance provide appropriate solution to problems	3.35	4.39	-1.04
	7	Performs service right the first time	3.75	4.34	-0.59
	8	Provide service at scheduled time	3.65	4.34	-0.69
	9	The insurance insist error free records	3.9	4.47	-0.57
	Average score of dimension	3.63	4.41	-0.78	
Responsiveness	10	Insurance staffs has inform customers the exact time of service performance	3.2	4.5	-1.3
	11	Insurance prompt customer service	3.5	4.48	-0.98
	12	Staffs are never busy to respond to customers	4.18	4.57	-0.39
	13	Service done without delay	3.83	4.44	-0.61
		Average score of dimension	3.68	4.5	-0.82
Assurance	14	Employees have knowledge to answer customers questions	3.86	4.59	-0.73
	15	Staffs behavior instill confidence in customers	4.27	4.38	-0.11
	16	Customers feel safe in their transaction	4.22	4.4	-0.18
	17	Employees are friendly and polite	4.34	4.53	-0.19
		Average score of dimensions	4.17	4.48	-0.31
Empathy	18	Staffs are willing to help customers	4.21	4.66	-0.45
	19	Staffs are consistently polite during customer service	4.09	4.62	-0.53
	20	Insurance has employees who understand individual customer needs	3.75	4.65	-0.9
	21	The insurance has convenient operating hour	3.52	4.12	-0.6
	22	Employees give personal attention to customers	4.03	4.62	-0.59
	Average score of dimensions	3.92	4.53	-0.61	
Unweighted Average SERVQUAL score			-0.64		

Annex III: - Output of Correlation Analysis (Nyala)

Attributes		Respondent's Repurchase Intention	Respondent's word of mouth	Respondent's sensitivity to price	Respondent's complaining behavior	Respondent's loyalty to insurance
Perception of insurance location	Pearson Correlation	.542	.072	.192	.070	.081
	Sig. (2-tailed)	.569	.046	.151	.067	.072
	N	311	311	311	311	311
Perception of physical features appealing	Pearson Correlation	.032	.531	.022	.128	.461
	Sig. (2-tailed)	.009	.419	.005	.072	.439
	N	311	311	311	311	311
Perception of use modern equipment	Pearson Correlation	.091	.088	.018	.139	.0
	Sig. (2-tailed)	.620	.053	.921	.061	.0
	N	311	311	311	311	311
Perception of materials visually appealing	Pearson Correlation	.255	.001	.670	.798	.152
	Sig. (2-tailed)	.160	.000	.349	.447	.044
	N	311	311	311	311	311
Perception of keeping promise to do	Pearson Correlation	.033	.109	.034	.008	.106
	Sig. (2-tailed)	.046	.048	.014	.002	.017
	N	311	311	311	311	311
Average score of dimension	Pearson Correlation	0.19	0.16	0.18	0.23	0.16
	Sig. (2-tailed)	0.28	0.11	0.27	0.12	0.11
	N	311	311	311	311	311
Perception of providing solutions to problems	Pearson Correlation	.169	.864	.00	.008	.029
	Sig. (2-tailed)	.354	.838	.00	.009	.043
	N	311	311	311	311	311
Perception of performs the service at first time	Pearson Correlation	.060	.103	.061	.180	.422
	Sig. (2-tailed)	.010	.089	.003	.035	.016
	N	311	311	311	311	311
Perception of performs service at scheduled time	Pearson Correlation	.264	.330	.527	.223	.021
	Sig. (2-tailed)	.145	.117	.002	.220	.016
	N	311	311	311	311	311
Perception of insurance insist error free records	Pearson Correlation	.205	.720	.0	.300	.273
	Sig. (2-tailed)	.122	.705	.0	.100	.131
	N	311	311	311	311	311
Average score of dimension	Pearson Correlation	0.17	0.50	0.28	0.17	0.18
	Sig. (2-tailed)	0.15	0.43	0.00	0.09	0.05
	N	311	311	311	311	311

Attributes		Respondent's Repurchase Intention	Respondent's word of mouth	Respondent's sensitivity to price	Respondent's complaining behavior	Respondent 's loyalty to insurance
Perception of employee informed customers at service time	Pearson Correlation	.257	.006	.803	.524	.644
	Sig. (2-tailed)	.185	.003	.795	.514	.548
	N	311	311	311	311	311
Perception of insurance prompt customer service	Pearson Correlation	.207	.221	.049	.534	.969
	Sig. (2-tailed)	.257	.224	.018	.420	.911
	N	311	311	311	311	311
Perception of employee never busy to respond	Pearson Correlation	.002	.052	.138	.124	.513
	Sig. (2-tailed)	.002	.022	.451	.498	.003
	N	311	311	311	311	311
Perception of service done without delay	Pearson Correlation	.130	.017	.664	.748	.233
	Sig. (2-tailed)	.078	.035	.219	.379	.139
	N	311	311	311	311	311
Average score of dimension	Pearson Correlation	0.15	0.07	0.41	0.48	0.58
	Sig. (2-tailed)	0.13	0.07	0.37	0.45	0.40
	N	311	311	311	311	311
Perception of employee to answer questions	Pearson Correlation	.632	.300	.092	.105	.543
	Sig. (2-tailed)	.610	.319	.113	.115	.499
	N	311	311	311	311	311
Perception of employee behaviors	Pearson Correlation	.006	.172	.138	.004	.401
	Sig. (2-tailed)	.003	.264	.451	.002	.023
	N	311	311	311	311	311
Perception of customers feel safe in their transactions	Pearson Correlation	.028	.015	.004	.009	.045
	Sig. (2-tailed)	.010	.009	.000	.001	.028
	N	311	311	311	311	311
Perception of employee's friendly	Pearson Correlation	.327	.114	.148	.080	.019
	Sig. (2-tailed)	.012	.048	.251	.003	.009
	N	311	311	311	311	311
Average score of dimension	Pearson Correlation	0.24	0.18	0.09	0.04	0.25
	Sig. (2-tailed)	0.15	0.16	0.20	0.12	0.55
	N	311	311	311	311	311
Perception of employee willingness to help	Pearson Correlation	.807	.166	.677	.252	.970
	Sig. (2-tailed)	.707	.153	.385	.154	.954
	N	311	311	311	311	311
Perception of employee politeness	Pearson Correlation	.714	.257	.411	.225	.772
	Sig. (2-tailed)	.679	.218	.133	.062	.646
	N	311	311	311	311	311
Perception of understanding customers' need	Pearson Correlation	.279	.302	.530	.714	.401
	Sig. (2-tailed)	.122	.093	.386	.573	.023
	N	311	311	311	311	311
Perception of convenient operating hour	Pearson Correlation	.223	.738	.259	.160	.043
	Sig. (2-tailed)	.220	.699	.152	.110	.044
	N	311	311	311	311	311
Perception of employee who give personal attention	Pearson Correlation	.169	.314	.235	.168	.120
	Sig. (2-tailed)	.354	.293	.191	.358	.512
	N	311	311	311	311	311
Average score of dimension	Pearson Correlation	0.44	0.36	0.42	0.30	0.46
	Sig. (2-tailed)	0.41	0.29	0.24	0.25	0.43
	N	311	311	311	311	311

Questionnaire

This questionnaire is prepared to collect data about perceived service quality and customer loyalty from customers of Nyala insurance s.co in Addis Ababa for the partial fulfillment of MBA program at St. Mary University. I kindly request you to provide me reliable information

I promise to keep your answers confidential and use them only for purpose of academic award.

Thank you very much for your collaboration!

Section I: Demographic Information

1. Gender:

- a. Male b. Female

2. Age:

- a. < 30 b. 31-45 c. 46-60 d. >60

3. Marital Status:

- a. Married b. Single c. Other _____

4. Level of Education:

- a. Below Diploma b. Diploma c. Degree d. Masters and Above

5. Occupation:

- a. Salaried b. Self-employment c. Retired d. Other _____

6. Type of policy purchased:

- a. Assets b. Business c. Staff d. Others _____

7. Policy Term (in years):

- a. Less than one b. 1-5 c. 5-10 d. 10-20 e. >20 ____

8. Premium Amount (in Birr):

- a. Less than 1000 b. 1000-5000 c. 5000-10000 d. More than 1000

Section II: Please indicate on a five point scale the extent to which you find the following statements important by ticking on the box in the first column and also indicate on a five point scale the extent to which you are satisfied or dissatisfied in the second column with the following statements.

Expectations

1= Not Important 2= Less Important 3= Neutral 4=Important 5= Very important

Perception

1= very dissatisfied 2= dissatisfied 3= Neutral 4= Satisfied 5= Very satisfied

SERVQUAL MODEL /Multiple Items	Expectations					Perceptions				
	How important is this item to you					Level of satisfaction with this item				
	1	2	3	4	5	1	2	3	4	5
Tangibility										
The Branches location is convenient										
The insurance's physical features are visually appealing										
The insurance uses modern & accessible office equipments and Network system										
The insurance's materials associated with the service are usually appealing										
Reliability										
When the insurance promises to do something by a certain time, it does so.										
The insurance provides appropriate solutions to problems										
The insurance performs the service right the first time										
The insurance provide service at scheduled time.										
The insurance insist error free records.										
Responsiveness										
The insurance's staff has informed customers at the exact time of the service performance.										
The Insurance prompt customer service.										
Staff are never busy to respond to customers										
Service of the insurance are done without delay as they promise										
Assurance										
The staff in the insurance have the knowledge to answer your questions										
The staff behaviors instill confidence in customers.										
Customers feel safe in their transactions										
Employee's are friendly & show politeness to the customers										
Empathy										
Employees are willing to help customers										
Employees are consistently polite during service contact										
The insurance has employees who understand individual customer's need										
The insurance has convenient operating hour.										
The insurance has employees who give personal attention										

Section III: Please indicate on a five point scale the extent to which you find the following statements important by indicating the number that best shows your judgment.

Please rank each statement as follows:

Strongly Disagree

Strongly agree

1

2

3

4

5

Statement	Score
I plan to continue to be a customer of this insurance	
I plan to tell about the quality of service of this insurance to others	
I plan to continue to be a customer of this insurance regardless of price increment	
I never complain about my insurance service regardless of quality of service	
Overall, I am a loyal customer to my insurance	

