THE IMPACT OF CUSTOMER SATISFACTION, SERVICE QUALITY AND RELATIONSHIP QUALITY ON THE DEVELOPMENT OF CUSTOMER LOYALTY, THE CASE OF AWASH INSURANCE COMPANY

By

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Acknowledgments

Acronyms

AIC------------------------- Awash Insurance Company

CS--------------------------- Customer Satisfaction

SQ--------------------------- Service Quality

RQ-------------------------- Relationship Quality

CL-------------------------- Customer Loyalty

SERVQUAL---------------- Service Quality

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Abstract

The aim of this study was to investigate the impact of customer satisfaction, service quality and relationship quality on the development of customer loyalty, in case of Awash Insurance Company. Data were collected from four Branches of AIC (Bole, Finfine, sebategna and Gofa). A sample 307 respondents from the four branches are addressed through questionnaires.

These respondents were selected using systematic sampling method. The collected data were analyzed using statistical tools such as descriptive statistics, correlation, and multiple regression analysis.

The results of the study revealed that there is a positive and moderate relationship between customer satisfaction and customer loyalty and positive and high relationship between service quality and customer loyalty and relationship quality and Customer Loyalty.

In addition to this, the study examined that service quality and relationship quality have a significant effect on the development of customer loyalty while the impact of customer satisfaction is less significant. Moreover; it is found that relationship quality has more impact than the other variables addressed in this study.

Furthermore, the variables used in this study, (customer satisfaction, service quality and relationship quality) significantly explain the variations in customer loyalty.

Keywords: Customer Satisfaction, Service Quality, Relationship Quality, Customer Loyalty.

CHAPTER ONE

INTRODUCTION

1.1 Background of the Study

In today's business, companies are realizing that losing a customer means losing more than a single sale. It means losing the entire stream of purchases that the customer would make over a life time of patronage (Kotler, 2006). It is known that long-term customers are more likely to expand their relationship within the product and the rewards from this group are long term and cumulative (Grayson and Ambler, 1999). Loyal or repeat customers are thought to act as information channels, informally linking networks of friends, relatives and other potential customers to the organization (Shoemaker and Lewis, 1999). The other benefit associated with customer loyalty is the lower costs associated with retaining existing customers, rather than constantly recruiting new ones especially within mature, competitive markets (Ehrenberg and Goodhardt, 2000). Different researchers have tried to test the variables believed to bring customer loyalty such as, service quality (Zeithaml et al., 1996), customer satisfaction (Chandrashekaran et al., 2007; Lai et al., 2009), customer relationship, customer trust and commitment (Garbarino and Johnson, 1999). These variables influence customer purchase decisions through different degrees depending on the industry and context (Jones and Sasser, 1995). For example, De Rutyer et al. (1998) in his study of determinants of service loyalty in five different service sectors found that the determinants vary per industry (i.e. the determinants of one industry cannot be generalized in other industries).

In addition to this, for the purpose of determining the antecedents of loyalty, several authors have looked at customer satisfaction and have shown the two concepts' have close relationship (e.g. Jones and Sasser, 1995; Sheth and Sisodia, 1999). Higher levels of customer satisfaction can lead to a reduction of the perceived benefits of alternative suppliers and hence to higher repurchase intentions (Anderson and Sullivan, 1993). Moreover, Anderson and Srinivasan (2003), claim that "a dissatisfied customer is more likely to search for information on alternatives and more likely to yield to competitor than is a satisfied customer".

On the other hand, the theoretical relationship between service quality and loyalty has been confirmed empirically in several studies, example (Bloemer et al, 1998; Boulding et al., 1993; Cronin et al., 2000; Fornell, 1992). Cronin et al. (2000) reported that, service quality has a significant positive effect on behavioral intentions (loyalty). Bloemer et al. (1998) found that quality has both a direct influence and an indirect influence (through satisfaction) on loyalty. Furthermore the finding of Gronroos (1994) revealed that, the aim of relationship marketing is to establish, maintain, and enhance relationships with customers and other partners, at a profit, so that the objectives of the parties involved are met. Similarly, Rapp and Collins (1990) suggested that the goals are to create and maintain lasting relationships between the firm and its customers that are rewarding for both sides which is achieved by a mutual symbiosis and fulfillment of promises. In other words, a key objective is to foster customer loyalty (Ndubisi 2003a, b).

The history of insurance service is as far back as modern form of banking service in Ethiopia which was introduced in 1905. The first significant event that the Ethiopian insurance market observation was the issuance of proclamation No. 281/1970 and this proclamation was issued to provide for the control & regulation of insurance business in Ethiopia (Hailu Zeleke, 2007). Consequently, it created an insurance council and an insurance controller's office.

The controller of insurance licensed 15 domestic insurance companies, 36 agents, 7 brokers, 3 actuaries & 11 assessors in accordance with the provisions of the proclamation immediately in the year after the issuance of the law.

After four years that is after the enactment of the proclamation, the military government that came to power in 1974 put an end to all private enterprises. Then all insurance companies operating were nationalized and from January 1, 1975 onwards the government took over the ownership and control of these companies & merged them into a single unit called Ethiopian Insurance Corporation. In the years following nationalization, Ethiopian Insurance Corporation became the sole operator. After the change in the political environment in 1991, the proclamation for the licensing and supervision of insurance business heralded the beginning of a new era. Immediately after the enactment of the proclamation in the 1994, private insurance companies began to increase.

Awash Insurance Company S.C. (AIC) is one of the first few pioneer private insurance companies in Ethiopia launched following the liberalization of the financial sector in 1994. With well-founded experience and customer oriented service, AIC is progressing in renewing its commitment to excellence. AIC has 33 branches throughout the country in which 22 of them are found in Addis and the remaining 11 are found in other regions of the country. Currently, the Company has around 28,500 customers (both corporate client and individual customer) who are found in their data base (WWW.awashinsurance.com).

1.2 Statement of the Problem

Today business organizations are struggling to get more customers and satisfy their needs and want through their offerings. They are promoting their goods/services through different ways for the customers. They spend a lot on advertizing and other communication mixes to attract as many customers as possible and to win the customers of their competitors. But it is believed that, it is more profitable to retain customers than to acquire new ones (Hogan et al., 2003; Lee-Kelley et al., 2003). It is clear that every business organization need to increase its profits by fulfilling the requirements of its customers for its long term operation. But this cannot be achieved without retaining customers hence loyal customers are less likely to change provider because of price, and they also tend to recommend the business to others (Reichheld and Sasser, 1990; Reichheld and Teal, 1996). This highlights the critical importance of customer loyalty for companies and especially for those operating in service industries because, service providers compete with companies very similar to themselves so that, they often respond by employing customer retention strategies (Egan, 2004 p. 133).

In our country it is not common to see organizations that are committed in building loyal customers due to several reasons; it may be because of lack of knowledge on the area, the organization may be dependent on traditional marketing system, lack of commitment, and many other reasons. Since competition in the service sector is increasing, organizations have to work on loyalty and change their current customers to loyal and get competitive advantage over the others. To develop loyal customers' organizations need to know what makes customers loyal and the constructs of loyalty. Therefore, this study was undertaken to know the extent of relationship and significance of customer satisfaction, service quality and relationship quality on the development of customer loyalty in the case of Awash Insurance Company.

1.3 Research Questions

The following important questions are raised in this study.

- ❖ What is the contribution of customer satisfaction for the building of customer loyalty?
- ❖ How does service quality affects customer loyalty?
- ❖ To what extent does relationship quality lead to customer loyalty?
- ❖ Which of the variables/factors (customer satisfaction, service quality, and relationship quality) have significant effect to build customers loyalty?

1.4 Objectives of the Study

1.4.1 General Objectives of the Study

The major objective of the study was to find out the contributions and significance of customer satisfaction, service quality and relationship quality in developing customer loyalty.

1.4.2 Specific Objectives of the Study

The specific objectives of the research are to:-

- ❖ examine the contribution of customer satisfactions to customer loyalty.
- ❖ investigate the impact of service quality on customer loyalty.
- ❖ identify the extent of relationship between relationship quality and customer loyalty.
- ❖ identify which of the three variables/factors (customer satisfaction, service quality, and relationship quality) plays a significant role in building loyal customers.

1.5 Hypotheses of the Study

In line with the above objectives of the study, the following hypotheses were formulated and investigated.

Ho1: there is no significant relationship between customer satisfaction and customer

loyalty.

Ha1: there is significant relationship between customer satisfaction and customer loyalty.

Ho2: there is no significant relationship between service quality and customer loyalty.

Ha2: there is significant relationship between service quality and customer loyalty

Ho3: there is no significant relationship between relationship quality and customer loyalty.

Ha3: there is significant relationship between relationship quality and customer loyalty.

1.6 Definition of Terms

Customer satisfaction is a person's feeling of pleasure or disappointment resulting from comparing a product's perceived performance (or outcome) in relation to his or her expectations" (Kotler, 2003, p. 36). It is the extent to which a product's perceived performance matches a buyer's expectation (Kotler, 2006, p 19).

Service quality is the delivery of excellent or superior service relative to customer expectations (Zeithaml and Bitner, 1996, p. 117).

Relationship quality is the'' level of relationship between a business and the customer in which the level determines how well an organization meets the customer's needs, Crosby et al (1990).

Customer loyalty is "a deeply held commitment to re-buy or re-patronize a preferred product/service consistently in the future, thereby causing repetitive same-brand or same brand set purchasing, despite situational influences and marketing efforts having the potential to cause switching behavior" .Oliver (1999, p.34).

1.7 Significance of the Study

This study has the following importance. It

- shows the impacts of customer satisfaction, service quality, and relationship quality on customer loyalty.
- identifies which of the variables (customers satisfaction, service quality or relationship quality) plays a significant role to develop loyal customer
- gives some recommendations for Insurance companies, the areas that need attention to make customers loyal.
- serves as a spring board for other researchers to investigate further using more branch offices operating in the Insurance Company.

1.8. Delimitation/Scope of the Study

This study is limited to Awash Insurance Company generally and within its four branches (Bole,Finfine,Sebategna and Gofa) specifically, and focuses only on three variables that contribute for the development of customer loyalty (customer satisfaction, service quality and relationship quality) due to time and budget constraints.

CHAPTER TWO

Review of Related Literature

INTRODUCTION

This chapter provides the reader with a literature review concerning the research area. The definitions of customer loyalty, customer satisfaction, service quality and relationship quality are discussed and the relationship of customer satisfaction, service quality and relationship quality with customer loyalty in the previous studies on the area are presented.

2.1. Customer Loyalty

Scholars defined customer loyalty in different ways

According to (Dick and Basu, 1994); loyalty refers to a relationship between relative attitude towards an entity and repeat patronage behavior. It is a situation when repeat purchase behavior is accompanied by a psychological bond and repeat purchase intentions and behaviors (Jarvis and Wilcox, 1977). Loyalty is defined as "a favorable attitude towards a brand in addition to purchasing it repeatedly (Day, 1969). Customer loyalty is also defined as a deeply held commitment to re-buy or re-patronize a preferred product consistently in the future (Ganesh et al., 2000; Jamal and Anastasiadou, 2009; Kimet al., 2007; Oliver, 1999; Stank et al., 1999, 2003). On the other hand, Oliver (1999) stated that customer loyalty is the repeat purchase intention of a customer toward a service or product no matter the varying influencing situations or marketing activities. Simply stated, customer loyalty is purchase behavior, unlike customer satisfaction, which is an attitude (Griffin, 1996). Customer loyalty is a key mediating variable in explaining customer retention (Pritchard and Howard, 1997). As it is shown in the above definitions, customer loyalty can be generally occurs when customers: repeatedly purchase a good or service

overtime and hold favorable attitudes towards a good/service or towards the company. According to (Bowen and Shoemaker, 1998) it is concerned with the likelihood of a customer making business referrals, returning to the supplier providing strong word-of-mouth and providing references and publicity. Loyal customers are also less likely to switch to a competitor due to a given price inducement, and these customers make more purchases compared to less loyal customers (Baldinger and Rubinson, 1996). Loyal customers tend to have a higher level of recommendation intention and repurchase intention, (Bowen and Shoemaker, 1998; Chi et al., 2009; Hennig-Thurau et al., 2002; Kimet al., 2007; Singh and Sirdeshmukh, 2000; Stank et al., 1999, 2003; Yu and Dean, 2001). Loyalty increases repurchase behavior because loyal customers demonstrate greater resistance to counter persuasion and negative word of mouth. Loyal customers are less price sensitive, and decrease the risk of defection due to competitors' promotional activities (Stank et al., 2003).

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). 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.

Loyalty can be seen from three perspectives, the behavioral perspective, the attitudinal perspective and the composite perspective (Bowen and Chen, 2001; Zins, 2001). The behavioral perspective, ''purchase loyalty'', strictly looks at repeat purchase behavior and

is based on the customer's purchase history. Here, the emphasis is on past -rather than on-future actions. Moreover, no other loyal behavioral actions such as price tolerance, word of mouth, or complaint behavior can be interpreted (Zins, 2001). Concentrating on the behavioral aspect of loyalty could overestimate true loyalty (Zins, 2001). The attitudinal perspective, in contrast, allows gain in supplemental understanding of loyal behavior (Zins, 2001). Here, customer loyalty is approached as an attitudinal construct. Attitude denotes the degree to which a consumer's disposition towards a service is favorably inclined. This inclination is reflected by activities such as the customers recommending service providers to other consumers or their commitment to re-patronize a preferred service provider (Gremler and Brown, 1996). Based on a favorable attitude towards a service provider, customers may develop ''preference loyalty'' (De Ruyter et al., 1998). Lastly, the composite perspective combines attitudinal and behavioral definitions of loyalty. The composite perspective might be considered as an alternative to affective loyalty since using both attitude and behavior in a loyalty definition arguably increases the predictive power of loyalty (Pritchard and Howard, 1997). 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: Word-of-mouth communications, Purchase intention, Price sensitivity; and Complaining behavior Even though, there are many factors that are considered as constructs of loyalty, this study focuses only on three variables, customer satisfaction, service quality and relationship quality.

2.2. Customer Satisfaction and customer loyalty

Different scholars defined customer satisfaction in various ways, for example Hansemark and Albinson (2004) defined it as "an overall customer attitude towards a service provider, or an emotional reaction to the difference between what customers anticipate and what they receive, regarding the fulfillment of some needs, goals or desire."

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." On the other hand (Al-alak, 2009) stated that, Satisfaction is "the buyer's state of being adequately rewarded in a buying situation for the sacrifice he or she has made" When we look at Jamal and Kamal (2002) customer satisfaction described as "a feeling or attitude of a customer towards a product or service after it has been used." According to (Oliver 1980a) customer satisfaction refers to" an attitude or evaluation formed by a customer comparing pre-purchase expectations of what they would receive from the product or service to their subjective perceptions of the performance they actually did receive." To summarize the above definitions, customer satisfaction is about the customer's belief or attitude to the provider of product/service or their attitude of whether the benefit/value they get can bear what they sacrifice or paid. Due to the benefits it brings to organizations, Customer satisfaction has become a key intermediary objective in service operations (Saha and Theingi, 2009). The importance of customer satisfaction is derived from the generally accepted philosophy that for a business to be successful and profitable, it must satisfy customers (Bitner and Hubbert, 1994).

Since customer satisfaction affect customer retention and companies' market share it has been a major goal of business organizations or many years, (Hansemark and Albinsson, 2004). Customer satisfaction is a fundamental determinant of long-term consumer behavior (Oliver, 1980 and Yi, 1990). In order to control customer defection, most companies focus on managing customer satisfaction (Capraro et al., 2000). Previous research has demonstrated that satisfaction is strongly associated with re-purchase intentions (Cronin and Taylor, 1992; Fornell, 1992) and it also serves as an exit barrier, helping a firm to retain its customers (Fornell, 1992; Halstead and Page, 1992). In addition to these, customer satisfaction also leads to favorable word-of-mouth publicity that provides valuable indirect advertising for an organization (Halstead and Page, 1992; Fornell, 1992). For many industries, having satisfied customer means that the organization receives fewer

complaints (Fornell, 1992), hence costs related with handling failures are reduced. Researchers also agree that satisfied customers are willing to pay more for the benefits they receive and are more likely to be tolerant of an increase in price (Fornell, 1992).Through satisfying customers, organizations could improve profitability by expanding their business and gaining a higher market share as well as repeat and referral business (Bitner and Hubbert 1994). Satisfaction is also often used as a predictor of future consumer purchases (Newman and Werbel, 1973; Kasper, 1988). Customers have a higher likelihood of repeating purchases in time (Zeithaml et al., 1996), of recommending that others try the source of satisfaction (Reynolds and Arnold, 2000; Reynolds and Beatty, 1999), and of becoming less receptive to the competitor's offerings (Fitzell, 1998). More specifically, satisfaction is found to be a necessary precursor of customer loyalty (Fitzell, 1998; Fornell, 1992; Reynolds and Beatty, 1999; Sivadas and Baker-Prewitt, 2000; Zeithaml et al., 1996). Whereas satisfaction and loyalty are recognized as strongly related by most studies (Anderson and Sullivan, 1993; Fornell, 1992; Rust and Zahorik, 1993; Taylor and Baker, 1994), some consider the relationship to be interchangeable (Hallowell, 1996; Oliver, 1999), and some to be unidirectional, that is, progressing from satisfaction to loyalty only (Strauss and Neuhaus, 1997). Satisfied customers tend to be loyal customers with (Rowley, 2005) or without the mediation of other variables (Coyne, 1989; Fornell, 1992; Oliva et al., 1992). According to (Soderlund, 2006) measures of overall customer satisfaction typically capture consumer expectations towards the service provided, as well as how far the provided   service is from their ideal. Customers will always assess the services they experienced by comparing them with whatever they wish to receive. Research concerning the measurement and outcomes of the customer satisfaction construct has been undertaken in many different services and product constructs (for example, Churchill and Suprenant, 1982; Halstead et al., 1995; Oliver and DeSarbo, 1988; Spreng and Mackoy, 1996).

Most researchers agree that satisfaction is an attitude or evaluation which is formed by the customer comparing their pre-purchase expectations of what they would receive from the

product to their subjective perceptions of the performance they actually did receive (Oliver, 1980a). Johnson et al. (1990) and Silvestro and Johnson (1990) identified hygiene factors, enhancing factors and dual threshold factors. Hygiene factors are those aspects of the service that the customer expects to be present, and will not necessarily create satisfaction, while their absence will create dissatisfaction. Enhancing factors are those elements of the service which lead to satisfaction, but the absence of which will not necessarily create dissatisfaction (for example, service personnel remembering the customer's name between service encounters). Dual threshold factors are those aspects which, if the company fails to deliver them, will create dissatisfaction, but their delivery above a certain level will also create satisfaction (for example, personnel explaining the terms of a contract thoroughly).Therefore satisfaction can be considered as the consumer's evaluation of the product or service received. The importance of these customer evaluations comes from the impact that satisfaction is posited to have on consumer behaviors such as loyalty.

2.3. Service Quality and customer loyalty

Lovelock and Wright (1999) defined it as "the degree to which a service satisfies customers by meeting their needs, wants and expectations." Bitner and Hubbert (1994) also defined service quality as "the customers' overall impression of the relative inferiority or superiority of the organization and its services." In addition to this, service quality is seen as the "consumer's judgment about an entity's overall excellence or superiority" (Zethimal et al., 1996). It is a form of attitude, and results from a comparison of expectations to perceptions of performance received. On the other hand, Gefan (2002) defined service quality as "the difference between customers' expectations for service performance prior to the service encounter and their perceptions of the service received". 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.

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 Milbourn (1998) suggests that the economic success of companies fluctuates with the quality of service that is offered. Across industries, service organizations who deliver high quality service consistently receive repeat customers. According to Berry et al. (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, increased profit margins and business performance.Service quality is recognized as a multi-dimensional construct. While the number of dimensions often varies from researcher to researcher, there is some consensus that service quality consists of three primary aspects: outcome quality, interaction quality, and physical service environment quality (Rust and Oliver, 1994; Brady and Cronin, 2001). Outcome quality refers to the customer's assessment of the core service which is the prime motivating factor for obtaining the services (e.g. haircut, money received from ATM). Interaction quality refers to the customer's assessment of the service delivery process, which is typically rendered via a physical interface between the service provider, in person or via technical equipment, and the customer (Gronroos, 1984). The physical service environment quality dimension

refers to the consumer's evaluation of any tangible aspect associated with the facilities or equipment that the service is provided with. It includes the architectural design features of a hair salon or the physical conditions of an ATM machine.

A number of researchers further elaborate on sub-aspects of these three broad dimensions. For example, the most popular conceptualization of service quality – SERVQUAL – features five dimensions: tangibles, reliability, responsiveness, empathy and assurance (Parasuraman et al., 1988). The tangibles dimension correspond to the aforementioned physical environment aspect, the reliability dimensions corresponds to the service outcome aspect, and the remaining three represent aspects of interaction quality. Building upon and synthesizing previous work, Brady and Cronin (2001) advanced the hierarchical conceptualization of service quality. Here, service quality is a multilevel construct consisting of the aforementioned three sub-dimensions. The interaction quality dimension is comprised of attitude, behavior, and expertise of the service provider. The physical environment quality dimension is comprised of ambient conditions, design, and social factors of the service facilities. The outcome quality dimension is comprised of waiting time, tangibles, and valence. It has been generally agreed that service quality has many dimensions (Gronroos 1984; Parasuraman et al.1988). 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 (1988) SERVQUAL model. Originally containing 10 dimensions, Parasuraman et al. (1988) later reduced the SERVQUAL instrument to its present five dimensions: tangibles; reliability; responsiveness; assurance; and empathy (pp. 12-37).

Tangibility refers to physical facilities, equipment, and appearance of personnel. Jabnoun and Al-Tamimi, (2003) indicated that customers choose tangibility factor of service

quality. "Companies could build customer relationships by delivering added tangible and intangibility elements of the core products" (Zineldin, 2005).

Reliability means ability to perform the promised service dependency and accurately. Reliability is a significant factor of product quality in addition to good personal service, staff attitude, knowledge and skills (Walker, 1990). "It is found that service reliability is the service "core" to most customers and managers should use every opportunity to build a "do-it-right-first" attitude" (Berry et al., 1990).

Responsiveness means willingness to help customers and provide prompt service. Customers are very sensitive to employees' working environment in service organizations (Brown and Mitchell, 1993). (Gollway and Ho, 1996) reported that proper balance between staff skills and customers' expectation resulted in superior service quality towards customers.

Assurance indicates knowledge and courtesy of employees and their ability to inspire trust and confidence. (Parasuraman et al., 1988) found that assurance is an important factor of service quality next to reliability and responsiveness towards customer satisfaction.

Empathy refers to caring, individualized attention the firm provides its customers (Brown and Mitchell, 1993). Jabnoun and Al-Tamimi, (2003) found that customers believed empathy as an essential factor of service quality. "It is suggested that employees' commitment to deliver quality services, skillfully handling of conflicts and efficient delivery of services resulted in satisfied customers for long term benefits" (Nelson and Chan, 2005). Within the services marketing literature, overall service quality is normally not viewed as a separate construct but treated as an aggregate construct whereby the individual dimensions are summed to obtain an estimate of overall service quality (Dabholkar et al., 2000; Sachdev and Verma, 2004; Zhou, 2004).

2.4. Relationship Quality and customer loyalty

According to, Crosby et al. (1990) relationship quality is defined as "a higher-order construct, consisting of at least two key related, but distinct dimensions" (trust and satisfaction). According to Hennig-Thurau and Klee's (1997) relationship quality is defined as the "degree of appropriateness of a relationship to fulfill the needs of the customer associated with the relationship". Here, relationship quality captures the positive/negative nature of a relationship, which in turn provides positive benefits to the customer.

The service industry contains features that allow customers to have an ambiguity toward its consumer services. These ambiguities may imply ineffective services or negative effects, such that the "relationship quality" helps lower these ambiguities (Crosby et al., 1990). Furthermore, Crosby et al. (1990) defined relationship quality from the customer's perspective as being achieved through the salesperson's ability to reduce perceived uncertainty leading to an environment where "... the customer is able to rely on the salesperson's integrity and has confidence in the salesperson's future performance because the level of past performance has been consistently satisfactory". On the other hand Levitt (1986) discussed relationship quality as a bundle of intangible values, which supplement products or services, and results in an expected interchange between buyers and sellers. In the service context, interpersonal relationships are considered as a key element of the offering (Czepiel, 1990; Berry, 1995), and research shows that the creation of communal relationships between customer and service personnel has a positive impact on customer-to-firm relationships. In fact, by providing social and confidence/trust benefits (Adelman et al., 1994; Goodwin and Gremler, 1996; Hennig Thurau et al., 2002), the existence of this kind of relationship contributes to the creation of value and, in turn, to customer loyalty both directly and indirectly.

There are different benefits that companies can gain from strong relationship with customers. Some of the benefits of strong relationships with customers are improved

communication links, and referrals (Hawke and Heffernan, 2006), an increased profit through reduced risk, and increase in customer satisfaction leading to more loyal customers (Petersen and Rajan, 1994; Binks and Ennew, 1997; Ennew and Binks, 1999; Tyler and Stanley, 1999). Relationship quality is conceptualized as the customer's assessment of the interpersonal relationship with the contact person. This conceptualization draws a distinction between relationship quality and the individual characteristics (e.g. expertise) and behavior (e.g. customer orientation) of contact person that might contribute to relationship quality. In service sector, relationship quality can be seen as a measure of the strength of relationship between a service provider and the user. It determines how strong the relationship is between both parties, and significant to the retention of customers. So, relationship quality has at least two dimensions: trust and satisfaction. However, a more general concept of relationship quality describes the overall depth and climate of relationship (Johnson, 1999). Consequently, it forms the overall impression that a customer has concerning the whole relationship including different transactions.Almost all subsequent relationship quality researchers have adopted trust and satisfaction as key dimensions. However, many have also conceptualized more dimensions including customer orientation (Dorsch et al., 1998; Palmer and Bejou, 1994), expertise (Palmer and Bejou, 1994), conflict, willingness to invest, and expectation of continuance (Kumar et al., 1995), opportunism (Dorsch et al., 1998), cooperative norms (Baker et al., 1999) and commitment to the firm (Kumar et al., 1995). Roberts et al. (2003) suggest that many of the dimensions examined can be eliminated either because they are antecedents or because they lack empirical support. They advocate a four-dimension conceptualization of relationship quality consisting of trust, satisfaction, commitment, and affective conflict. Hennig-Thurau et al. (2002) conduct a similar review of the literature and conclude that the core dimensions of relationship quality are satisfaction, trust, and commitment. Additionally, Gummesson (1987) identifies two dimensions of relationship quality in the service interface. He defines them as professional relations and social relations. While the former is grounded on the service provider's demonstration of competence, the latter is

based on the efficacy of the service provider's social interaction with the customer. Dorsch et al. (1998) provided an overview of the major constructs of relationship quality from the available literature. However, there is no consensus on which dimensions make up relationship quality, and four underpinnings of relationship marketing namely trust, commitment, communication and conflict handling, together with customer satisfaction, are found commonly used in measuring relationship quality

Trust defined by Crosby et al. (1990) as a confident belief that a salesperson can be relied upon to behave in such a manner that the long-term interest of the customer will be served, Moorman et al. (1992) described it as the willingness to rely on an exchange partner in whom one has confidence. They further suggest that an expectation of trustworthiness results from the ability to perform (expertise), reliability and intentionality. Other authors have defined trust in terms of actions with positive outcomes (Anderson and Narus, 1984), opportunistic behavior (Dwyer etal., 1987), uncertainty (Crosby et al., 1990), perception of confidence and shared values (Morgan and Hunt, 1994), mutual goals (Wilson, 1995), and making and keeping promises (Bitner, 1995).If there is no vulnerability and uncertainty, trust is unnecessary (Moorman et al., 1992). This means that trust is necessary in risky buying situations, and expected to contribute in developing quality firm-customer relationships. Trust is seen more as an essential ingredient of successful relationships (Hsieh and Hiang 2004). Crosby et al. (1990) reported relationship quality as a higher order construct made of trust among other distinct but related dimensions. Calonius (1988) emphasized that the responsibilities of marketing do not just include giving promises and thus persuading customers as passive counterparts on the marketplace to act in a given way, but in keeping promises, that maintains and enhances quality of relationship (Ndubisi and Chan, 2005).

Communication refers to the ability to provide timely and trustworthy information. Communication is also about mutual disclosure or sharing of secrets. Derlega et al. (1987) remarked that among the behaviors often noted as important in establishing and

maintaining interpersonal relationship is mutual disclosure, a reciprocal concept. Moreover, the contact intensity reflects an effort on the part of the service provider to keep the communication channels open with the customer and exhibit a commitment to the relationship (Williamson, 1983). Therefore, communications in relationship marketing means providing information on service components, fulfilling their promises, and trusted information if delivery problem occurs, as it keeps a dissatisfied customer informed about what the organization is doing to rectify the source of dissatisfaction Ndubisi and Chan, (2005). Thus, effective communications facilitated by the service provider make customers better informed on the initiatives and activities carried out by the organization towards improving relationship quality.

Commitment is defined by Moorman et al. (1992) is an enduring desire to maintain the relationship. It is the belief of a partner that an ongoing relationship with another is so important as to warrant maximum efforts at maintaining it. Furthermore, commitment will ensure a long term orientation in the relationship, and considered as a useful factor in measuring the probability of customer loyalty and future purchases (Gundlach et al., 1995; Morgan and Hunt, 1994).

Conflict handling is defined by Dwyer et al. (1987) as the supplier's ability to minimize the negative consequences of manifest and potential conflicts. Conflict handling reflects the service provider's ability to avoid potential conflicts, solve manifest conflicts before they create problems and the ability to discuss solutions openly when problems arise, Rusbult et al. (1988).

CHAPTER THREE

RESEARCH DESIGN AND METHODOLOGY

3.1. Research Design

Descriptive research design was used to summarize the gathered data from different sources and analytical research design (Factor Analysis, Pearson correlation and multiple regression analysis) are used to analyze the variables/factors used in this study. Finally, inferential design is employed to generalize based on the sample size.

3.2. Sampling and Population

This study was undertaken to assess the impact of customer satisfaction, service quality and relationship quality on the development of customer loyalty in the case of Awash Insurance Company. For the purpose of this study, samples of respondents from four branches of Awash Insurance Company are taken from the total 22 branches that are found in Addis Ababa. These four branches are selected based on the number of customers they have. Finfine and Bole branches which have 3000 and 5,500 customers respectively for the large customer base were selected and Sebategna and Gofa branches that have 500 and 1000 customers respectively for relatively lower number of customer base are undertaken to make the sample inclusive of branches that have small and large number of customers.

3.3. Sampling Technique and Sample Size

Systematic sampling technique is employed to select the respondents from the four branches of Awash Insurance Company.

The following sample size determination formula was used to determine the sample size which is developed by Taro Yamane (1967). The total population is 10,000

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

Where **n** is the sample size,

N is the total population size, and

e is the level of precision or sampling error = (0.05)

Therefore sample size is

$$n = \frac{10,000}{1+ 10,000(0.05)^2} = 384$$

Since the number of population in each branch is different and the total sample size is 384, the sample for each branch is calculated as follows

$$n1 = \frac{nN1}{N}$$

Where n= total number of samples

n1= number of sample for the branches

N= total number of population

N1= total number of population in each branch. The number of population and sample of respondents taken from each branch is indicated in the following table 3.1

Table 3.1 Total number of population and proportion of samples taken from each branch

S/No	Branches	Number of population	Number of Samples taken
1	Bole	5,500	211
2	Finfine	3000	115
3	Sebategna	500	20
4	Gofa	1000	38

3.4. Data Source and Collection Method

Primary data source which is collected through questionnaires is used in this study. Questionnaires are developed and distributed to the customers of the four branches of Awash Insurance Company. The variables are measured using Likert scale with five response categories (1= strongly disagree, 2 = disagree, 3 = neutral, 4 = agree and 5 = strongly agree). "The Likert scale method is preferred to make questions interesting to respondents and thereby enhance their cooperation, ultimately to ensure maximum response rate" (Robson Colin, 2002).

3.5. Data Collection Procedure

The researcher asked permission from the head office and the four branches of Awash Insurance Company through written cooperation letter from St. Mary's University before the data collection is started

After the grant of the permission the researcher distributed the questionnaires in each branches. Every (2nd, 4th, 6th, 8th, 10th ………) customer or customers coming to the customer service officers on even number basis are addressed through the questionnaires. Questionnaires are distributed and collected simultaneously from the four branches within a month. The researcher and other two data collectors collected the data from Monday-Friday 8:30 am – 12:30 am in the morning and 1:30pm – 4:30 pm afternoon.

The questionnaire used in this study was developed by the researcher based on the literature review and consists of four dimensions. (See APPENDIX A).

- Customer Satisfaction Dimension
- Service Quality dimension
- Relationship Quality Dimension and
- Customer Loyalty Dimension

3.6. Methods of Data Analysis

To analyze the collected data from different sources, SPSS (Software Package for Social Sciences) version 20 is used. Descriptive analysis used in the study is presented through tables and percentages. Pearson correlation analysis is also employed to examine the relationship between customer satisfactions, service quality, and relationship quality with customer loyalty. Finally, multiple regression analysis is done to investigate the contributions of each variable (customer satisfaction, service quality and relationship quality) on the development of customer loyalty.

3.7. Organization of the Paper

The study has five chapters in general. The first chapter contains introduction of the research which includes background of the study, statement of the problem, research questions, objectives of the study, hypothesis of the study, definition of terms, significance of the study, and delimitation/scope of the study. The second chapter provides review of related literature. In the third chapter, research design and methodology of the study is discussed including research design, sampling and population, sampling technique and sample size, data source and collection method, data collection procedure, and methods of data analysis are discussed. Data analysis and discussion of results is presented in the fourth chapter. Finally, summary of findings, conclusions and recommendations are raised in the fifth chapter.

3.8. Reliability Analysis

Reliability is fundamentally concerned with issues of consistency of measures (Bryman and Bell, 2003).If α is greater than 0.7, it implies that there is a high reliability and if α is smaller than 0.3, the reliability is low. Hair, et al., (2006)

The questionnaire was distributed to 30 respondents' to check the reliability and consistency of the instrument and the result of reliability test for the questionnaire are shown in the following table.

Table 3.2.Reliability Statistics

Cronbach's Alpha	Number of Items
0.942	20

Source: Own Source, 2014

The consistency reliability of the instrument is found reliable as it is shown in table 3.2 because the cronbach alpha is found to be 0.942 which is greater than 0.7.

3.9. Limitation of the Study

The following limitations are observed in this study

- ❖ The study focuses only on three variables or constructs of loyalty even though there may be many variables that can bring or contribute for building customer loyalty.
- ❖ The sample is taken only from Awash Insurance Company to test the variables.

CHAPTER FOUR

Data Analysis and Discussion of Results

Introduction

This chapter presents the process through which the final results are obtained and a discussion on the results. It starts with the background information (demographic profiles of the respondents) and goes through statistical methods of data analysis that includes descriptive statistics, factor analysis, correlation analysis and multiple regression analysis.

4.1. Descriptive analysis

Table 4.1 Demographic Profiles the of Respondents

Variables	Frequency	Percent
Age		
18-30	68	22.1
31-40	97	31.6
41-50	207	34.5
>50	36	11.7
Total	307	100.0
Sex		
Female	79	25.7
Male	228	74.3
Total	307	100.0
Marital status		
Married	206	67.1
Single	101	32.9
Total	307	100.0

Educational qualification		
Primary	24	7.8
Secondary	47	15.3
Diploma	78	25.4
Degree	130	42.3
Masters	28	9.1
PhD	0	0
Total	307	100.0

Source: Own Survey, 2014

As indicated in table 4.1 above, 22.1% of the respondents are between ages of 18-30, 31.6% are 31-40, 34.5% are from 41-50 and the remaining 11.7% are above 50. The table also shows that 25.7% of the respondents are female and 74.3% are male. The marital status of the respondents indicates that 67.1% are married and the other 32.9% are single Regarding their educational qualifications 7.8% are primary levels, 15.3% secondary levels, 25.4% diplomas,42.3% degree and the other 9.1% master's level. This shows that most of the respondents are educated (diploma and above), so that, they can understand and fill the questionnaires well.

4.2. Factor Analysis

Factor analysis has been used to test whether the dataset exactly detects the stated dimensions. The output of factor analysis is obtained by using principal components analysis and Oblimin with Kaiser Normalization rotation. Table 4.2 shows the final statistics comprising of the reliability result and the communality for all the 20 questions raised in the four dimensions. The factor analysis divided the total questions in to four components which is similar with the questions that are stated in the questionnaire. As it is shown in table 4.2 both results of reliability and communality indicated above 0.7 which indicates validity and reliability and common understanding of the questions.

1 .Customer Satisfaction	Communality	Reliability
1. I am satisfied with the overall services of Awash Insurance Company.	0.752	
2. The performance of the employees of Awash Insurance Company is satisfying.	0.858	
3. I am satisfied with the respectful behavior of employees of Awash Insurance Company.	0.767	0.783
4. Professional competency of Awash Insurance Company employees' is very satisfactory.	0.808	
5. There is satisfying quick service in Awash Insurance Company.	0.868	
2. Service Quality		
1. Awash Insurance Company has modern-looking equipment.	0.851	
2. Awash Insurance Company provides its services at promised times.	0.911	0.822
3. Awash Insurance Company gives quick response to customer requests.	0.849	
4. Employees of Awash Insurance Company have the required skill in providing services.	0.959	
5. Employees of Awash Insurance Company treat customer with great respect.	0.908	

3. Relationship Quality	Communality	Reliability
1. Awash Insurance Company has the ability to meet its promises.	0.974	
2. My relationship with Awash Insurance Company is one that I am very committed to continue it.	0.802	
3. Awash Insurance Company solves manifest conflicts before the customers create problems.	0.772	0.886
4. Awash Insurance Company asks you about your feeling toward its responses for your complaints.	0.897	
5. Awash Insurance Company clearly communicates about each policy, customers right, responsibility, and other related issues to its customers.	0.904	
4. Customer Loyalty		
1. I always recommend Awash Insurance Company to someone who seeks my advice.	0.930	
2. If I had to do it over again, I would still choose to use Awash Insurance Company.	0.820	0.929
3. Even if close friends recommended other Companies, my preference for Awash Insurance Company would not be changed.	0.861	
4. I do not like to change to other Insurance Company because Awash Insurance Company serves my needs effectively.	0.929	
5. I do not like to change to any Insurance Company because I value Awash Insurance Company.	0.987	

Source, Own Survey 201

Table 4.2.Communality and Reliability of the variables

4.3. Pearson Correlation analysis

To determine the relationship between Customer Satisfaction, Service Quality and Relationship Quality with customer loyalty, Pearson correlation is computed and the result is presented under the following table. According to Rubin et al, (1994) a Pearson correlation coefficient between

$\pm$ 0.00 – 0.19 shows slight or negligible correlation

$\pm$ 0.20 – 0.39 quite small correlations

$\pm$ 0.40 – 0.69 moderate correlation

$\pm$ 0.70 – 0.89 high correlation and

$\pm$ 0.90 – 1.00 very high correlations

Table 4.3 The Relationship of Customer Loyalty with Customer Satisfaction, Service Quality and Relationship Quality.

		Customer loyalty
Customer Satisfaction	Pearson Correlation	0.638^{**}
	Sig. (2-tailed)	0.000
	N	304
Service Quality	Pearson Correlation	$0 .706^{**}$
	Sig. (2-tailed)	0.000
	N	304
Relationship Quality	Pearson Correlation	0.744^{**}
	Sig. (2-tailed)	0.000
	N	304

**. Correlation is significant at the 0.01 level (2-tailed).

Source: Own Survey, 2014

As we can see from table 4.3, there is a positive and moderate relationship between customer satisfaction and customer loyalty (r = 0.638, P < 0.01) and there is positive and high relationship existed between service quality and customer loyalty (r = 0.706, P < 0.01). Moreover relationship quality and customer loyalty showed high and positive relationship than the two dimensions (r = 0.744, P < 0.01).

Generally, a positive relationship is obtained between customer loyalty and the other variables (Customer Satisfaction, Service Quality and Relationship Quality).

4.4. Multiple Regression analysis

4.4.1. Regression Equation

The equation of multiple regressions in this study is built based on two sets of variable, namely dependent variable; Customer Loyalty and independent variables; Customer Satisfaction, Service Quality and Relationship Quality. The basic objective of using regression equation on this study is to identify the effects of customer satisfaction, service quality and relationship quality on customer loyalty.

Regression of customer loyalty on Customer Satisfaction, Service Quality and Relationship Quality

Y = β1 + β2CS + β3 SQ + β4RQ Where

- **Y** is the dependent variable - customer loyalty (**CL**) and
- **CS, SQ and RQ** are the explanatory variables (or the regressors)
- **β1** is the intercept term
- **β2, β3, and β4,** are coefficients of their respective independent variables

β1 gives the mean or average effect on Y if all the variables excluded from the equation, although its mechanical interpretation is the average value of Y when the stated independent variables are set equal to zero.

β2, β3, and β4 measures the change in the mean value of Y, per unit change in their respective independent variables.

In the equation above   **CS** represents customer satisfaction

SQ represents service quality and

RQ represents relationship quality

The researcher used multiple regression analysis to examine the impact of customer satisfaction, service quality and relationship quality on the development of customer loyalty. Multicollinearity test is made before the analysis is done to test correlation among the independent variables. According to (Kline, 1998) multicollinearity is not a threat if a correlation value is less than 80% and the result of multiple correlations among the independent variables shows that, the pair wise correlation between the independent variables is less than 80%, as shown in table 4.4.

4.4.2. Multicollinearity Test

Table 4.4 Correlations between independent variables (Customer Satisfaction, Service Quality and Relationship Quality)

		Customer satisfaction	Service quality
Customer satisfaction	Pearson Correlation		
	Sig. (2-tailed)		
Service quality	Pearson Correlation	0.722[**]	
	Sig. (2-tailed)	0.000	
Relationship quality	Pearson Correlation	0.712[**]	0.600[**]
	Sig. (2-tailed)	0.000	0.000

As it shown in table 4.4 the relationship between the independent variables, customer satisfaction and service quality is (r = 0.722, P < 0.01), customer satisfaction and relationship quality (r = 0.712, P < 0.01) and service quality and relationship quality is (r = 0.600, P < 0.01) in which all the result shows below 80%.

4.4.3. Regression analysis

The results of multiple regression analysis will be presented in the following subsections.

Table 4.5 Regression of customer loyalty on the other variables (Customer Satisfaction, Service Quality and Relationship Quality)

Model	Standardized Coefficients		
	β	t	Sig.
(Constant)		4.232	0.000
Customer satisfaction	0.047	0.787	0.432
Service quality	0.427	8.263	0.000
Relationship quality	0.520	10.272	0.000
R^2 = 0.659			

Dependent Variable: customer loyalty   [**]$P < 0.05$

Source: Own Survey, 2014

Table 4.5 above shows the impact of customer satisfaction, service quality and relationship quality on the development of customer loyalty. Among the three variables   customer satisfaction has no significant impact on customer loyalty ($\beta = 0.047$) at 95% confidence level ($P < 0.05$).

This supports the findings of other researchers. For example, Kordick (1988) reported that only 40% of the surveyed buyers who said they were satisfied with the brand and the service engaged in repeat purchase behavior. Furthermore, Kordick notes that 15% of the unsatisfied customers returned to the same dealers despite their dissatisfaction. In a German study by Gierl between 40% and 62% of the interviewed customers stated that they had changed the organization even though they were satisfied. Furthermore Gierl, (1993) reported that the percentage of satisfied brand switchers exceeded the percentage of customers who defected due to a dissatisfactory state. According to Reichheld (1993), "between 65% and 85% of customers who defect say they were satisfied or very satisfied with their former supplier". This implies that the role customer satisfaction plays is very low in building loyal customers compared to the stated variables in this study.

As revealed by the result of multiple regression ($\beta = 0.047$), there is no significant relationship between customer satisfaction and customer loyalty, so that, the null hypothesis is accepted and the alternative hypothesis is not accepted.

Ho1: there is no significant relationship between customer satisfaction and customer loyalty.

The research revealed that service quality has significant contribution for the development of customer loyalty ($\beta = 0.427$) at 95% confidence level ($P < 0.05$).This shows that offering quality service to customers has a significant effect to make customers loyal.

Therefore the researcher rejected the null hypothesis and accepted the alternative hypothesis.

Ha2: there is significant relationship between service quality and customer loyalty

Regarding the relationship quality and customer loyalty more significant relationship is found between the two variables than the others variables that are addressed in this study, relationship quality significantly contributes to the development of loyal customers with a beta value of (β = 0.520) at 95% confidence level (P < 0.05). This indicates that relationship quality plays a greater role, about 52% of the total variables that are important in building loyal customers.

Hence there is significant relationship between relationship quality and customer loyalty, the null hypothesis is not accepted.

Ha3: there is significant relationship between relationship quality and customer loyalty.

On the other hand, the overall impact of customer satisfaction, service quality and relationship quality on the development of customer loyalty is significant with (R^2 = 0.659). In other words 66% of the variance on customer loyalty exists due to the variance on customer satisfaction, service quality and relationship quality.

CHAPTER FIVE

Summary of Findings, Conclusions and Recommendations

5.1. Summary of Findings

This study was intended to examine the impact of customer satisfaction, service quality and relationship quality on the development of customer loyalty in the case of Awash Insurance Company based on the questionnaire distributed to 307 respondents.

From the demographic profile of the respondents, we can see that 34.5% of the respondents from the total number are aged in the range of 41-50, followed by ages 31-40 which are 31. 6% and 74.3% are male, 67.1% are married and 42.3% are degree holders.

The correlation result of this study shows that there is a positive and moderate relationship between customer satisfaction and customer loyalty, positive and high relationship between service quality and customer loyalty and positive and high relationship between relationship quality and customer loyalty.

The multiple regression result shows that 66% of the variation on customer loyalty occurs due to the variation on relationship quality, service quality and customer satisfaction.

Among the three variables relationship quality contributes more for the development of customer loyalty followed by service quality. However customer satisfaction is less significant to build customer loyalty.

5.2 Conclusions

Based on the analysis and discussions made the researcher concluded the following points.

As revealed by this study, there is a positive and moderate relationship between customer satisfaction and customer loyalty.

There is a positive and high relationship between service quality and customer loyalty

There is also a positive and high relationship between relationship quality and customer loyalty.

The contribution of customer satisfaction to build customer loyalty is less significant than the variables addressed in this study.

Service quality has a significant impact on the development of customer loyalty.

Relationship quality has a more significant contribution to develop loyal customers.

5.3. Recommendations

Based on the findings and conclusions of the study, the researcher forwards the following recommendations.

As investigated in the study the contribution of service quality to develop loyal customers is high and significant. So that the(Insurance companies) particularly Awash Insurance Company needs to work on areas that enhance the quality of their services like performing promised services accurately, giving attention to its individual customers, hiring competent staff that have the necessary skill and knowledge in providing the services and so on.

In addition to this, the company has to work on relationship quality as far as it has a more significant impact to build loyal customers. Here the company also needs to enhance its relationship through providing communication channels, making the customers to trust the company, handling conflicts on time and the like.

Generally, if the (Insurance Companies) particularly AIC want to get more profit by reducing its transaction costs, it should work to build loyal customers. As the study reveals most of the variation on customer loyalty occurs as a result of the variation on relationship quality, service quality and customer satisfaction. Therefore the company should focus on the quality of relationship it has with its customers and the quality of service it gives to its customers.