



**ST. MARY'S UNIVERSITY
SCHOOL OF GRADUATE STUDIES**

**DETERMINANTS OF CUSTOMER RETENTION IN
NYALA INSURANCE S.C.**

BY: HANNA DAGNE

NOVEMBER 2014
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I.D NO: SGS/0223/2005B**

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APPROVED BY BOARD OF EXAMINERS

Dean, Graduate Studies

Advisor

External Examiner

Internal Examiner

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LIST OF ACRONYMS

NISCO	Nyala Insurance S.C.
SMU	Saint Mary's University
SGS	School of Graduate Studies
SPSS	Statistical Package for Social Sciences
OR	Odds Ratio
CI	Confidence Interval

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ABSTRACT

Customer retention plays a significant role for profitability and growth of a company. Accordingly, the aim of this study was determining the factors that affect customer retention in Nyala Insurance S.C. where its customer retention rate has been going down on an alarming rate. The study has analyzed the impact of selected independent variables, which are believed to have major impact in service rendering sector based on previous research findings. The determinant variables, which are satisfaction, trust, premium and switching barriers were selected based on the theoretical references made. The relevant data for the analysis of the research was gathered from a sample of 143, out of nearly 2,000 customers of NISCO Addis Ababa branches. Respondents were selected using convenience sampling method. The data was collected using a questionnaire comprised of 21 close-ended questions, mostly with Likert scale. The return rate was 90.2%. The data was analyzed on three layers. The demographic and univariate analysis was carried out using descriptive analysis; the bivariate analysis was computed using Pearson Correlation analysis; and, finally, binary logistic regression was used for the multivariate analysis. Major findings of the research showed that the attrition rate of the company still lies around 31.8%. Amongst the independent variables, trust is found to be the most significant factor in determining customer retention rate. Secondly, customer satisfaction is found to have a strong impact in affecting customers' decision whether to stay or not. Premium price and switching barrier were found to have non-significant impact on retention. Based on these findings, a recommendation that stresses on developing trust and customer satisfaction has been forwarded.

Key Words: customer retention, Attrition, Trust, Customer Satisfaction, Premium, Switching Barrier.

CHAPTER ONE

INTRODUCTION

This chapter presents a general background of the study, Objectives of the study as well as statement of the problem. The chapter further describes the scope of the study, significance of the study and organization of the study.

1.1 Background of the Study

As per the financial definition, insurance is a financial arrangement that redistributes the costs of unexpected losses. Article 654 (2) of the commercial code of Ethiopia, provides a legal definition of insurance policy as “An insurance policy is a contract whereby a person called the insurer undertakes against payment of one or more premiums to pay to a person, called the beneficiary, a sum of money where a specified risk materializes”. This contract of agreement is subject to specific period, usually one year, and can be renewed for further period based on an additional charge and the mutual interest of the insurer and the insured. Thus, renewed policies assure customer retention.

In this complex and dynamic business environment, organization’s survival is highly determined by its ability to attract and retain customers. Ramakrishnan (2006) defines customer retention as the marketing goal of preventing customers from going to the competitor.

In Ethiopia, the insurance industry falls under the category of fast growing sectors. This can be witnessed by the availability of many new entrants that are joining the market. Currently, the government of Ethiopia has given special emphasis to the sector by which it had introduced compulsory third party insurance act regarding motor vehicles. Moreover, it is also in process to declare a compulsory health insurance act for employees. This and other factors increase the market demand. On the other hand, as a supply response, some new insurance companies has joined the market and others are on establishment to join the market. Currently the total number of insurance companies in operation has reached seventeen. Thus, it is common for the prevalence of stiff competition and switching of customers among the insurance companies.

Customer retention is the way in which organizations focus their efforts on existing customers in an effort to continue doing business with them (Mostert et al., 2009). However, customer retention can also mean the number of customers who stay with the provider in the course of an established period, such as a year (Dawes, 2009: 232). Customer retention is a key factor in determining the success of businesses today. Fluss (2010) notes that competitors are always on the lookout to steal customers through better deals. Fluss has observed that annual customer attrition rates range from 7% in industries that have high Switching Barriers such as banking and insurance, to almost 40% in the mobile phone industry.

However, currently Nyala Insurance S.C experiencing higher attrition rate than stated, which is 30% though there are Switching Barriers. This results a significant negative impact on the company's market share and profitability.

Customer retention has a direct impact on long-term customer lifetime value, which is a more profitable avenue for firms that seek to pursue growth and sustainability or those that seek to protect themselves from market shrinkage resulting from a contracting economy (Gee et al., 2008). Therefore, Customer retention is important when brand loyalty is decreasing and sales cycles are aggravating the business environment because under these circumstances, losing an important customer to a competitor would affect significantly the organization's profitability and growth

Different studies like Rust and Zahorik (1993) indicates that acquiring new client costs five to twelve times greater effort than retaining existing client. Therefore, it is vital to emphasis on maximizing customer retention through addressing issues that affect retention so as to ultimately ensure the company's sustainable growth and profit.

This research mainly focuses on identifying the customer retention factors and their degree of influence on company under study, Nyala Insurance S.C. Thus, having recognized the factors, the company can control or minimize its alertly increasing attrition rate and increase its market share. Moreover, different researchers studied the relationships of customer retention and its factors in different sectors. However, there is no prior similar research conducted on the insurance industry in Ethiopian context. Hence, this research has a great significance for insurance industry in general and for Nyala Insurance S.C. in particular.

1.2 Statement of the Problem

Insurance companies in Ethiopia are in expansion, targeting lucrative businesses favored by construction development, growth of foreign direct investment and the overall economic growth. Thus, competition tends to be high among existing and the incoming insurance companies. The nature of service given by all insurance companies is subject to renewal of policy period which require the customer's willingness to stay longer with its insurers.

On the other hand, insurance companies are always exerting their effort on acquisition of new customer and retaining of the existing customers to achieve their production goal. Retaining customer for the organization is indispensable target for survival and maximizing profit. Different studies show that customer retention has as many advantages over customer acquisition as the cost of attracting new customer is five to twelve times

Therefore, considering these facts, insurance industries are expected to maximize their retention rate in order to survive and to make profit. Nyala insurance company is in a move to increase its production by increasing its branches and by diversifying its products. the Though, company's minimum targeted retention rate is 80%, currently (2012/13) the annual retention rate shows 70%, while in 2011/2012 budget year it was 79%. Thus, the current retention rate is interpreted as out of 100 customers only 70 customers are retained and 30 customers are lost per annum due to various reasons. In correlation with this retention rate, the market share of the company also decreased from 6.1% in 2011/12 to 5.6% in 2012/13 which is a significant lose for the company. In the prevailing dynamic market and demanding customers, there are many factors that affect customer retention in insurance industry. Identifying these factors that affect customer retention is very important for Nyala insurance S.C. and for other similar companies in order to device appropriate retention strategy, maximize profit, and increase market share. Therefore, this study carried out to examine factors that affect customer retention particularly in Nyala Insurance S.C. Moreover, as per the researcher's exhaustive search for available sources, previous works in particular to Ethiopian insurance industry have not been found. Thus, this research is unique and vital since it considers the context of local market practice.

1.3 Research Questions

Derived from the research problem, The following questions are raised in order to determine the relationship between the dependent and independent variables.

1. What is the relationship between customer satisfaction and customer retention?
2. What does the relation between trust and customer retention in Nyala insurance S.C. look like?
3. What is the effect of premium /price on customer retention in Nyala Insurance S.C.?
4. What is the relationship between switching barrier and customer retention?

1.4 Objective of the Study

In correlation with the discussed problems, this research has put forward general and specific objectives to be addressed by the research findings.

1.4.1 General Objective

The general objective of this study is to examine factors that affect customer retention in Nyala Insurance S.C.

1.4.2 Specific Objectives

-  To assess the effect of customer satisfaction on retention
-  To examine the effect of trust on customer retention
-  To determine the effect of premium price on retention
-  To assess the effect of switching barrier on customer retention

1.5 Definition of Terms

The following terms are used in this research as per their theoretical definition stated here under.

Retention rate: It is the percentage of maintained customer over a period. (Ramakrishnan 2006)

Attrition rate: It is defined as the percentage of lost customer over a period. (Fluss 2010)

Acquisition: It is the action of taking possession of customer. (Fluss 2010)

Market share: It is described as a percentage of the total production volume in market captured by a company (Kotler et al., 2002)

Switching barrier: It is a constraint that prevents the customer from switching to other company. (Gremler and Brown, 1996)

1.6 Significance of the Study

The study has a great significance to Nyala Insurance S.C. and the insurance Industry in Ethiopia as a whole. Major benefits that would be obtained from the study are:

- It helps Nyala Insurance S.C. to identify determinants of customer retention and distinguish the factor that has a greater effect over customer retention.
- By identifying and capitalizing on the determinants of customer retention NISCO can
 - Reduce the cost of acquisition through maximizing retention. Hence it indirectly will serve as a free advertising method through retained customer's
 - word of mouth activity.
 - Maximize its market share, production, and profit.
 - Generate new ideas so that they can device their marketing strategy in accordance to win maximum retention.
- It also helps to Similar insurance companies to identify customer retention determinants so as to device proper strategy

1.7 Scope of the Study

The study is limited to Nyala Insurance S.C.'s service centers, which are found only in Addis Ababa. One of the reasons behind this is that the concentration of Nyala Insurance S.C's branches in Addis Ababa is 58% and in premium contribution, Addis Ababa branches share 73% of the total premium. The head office of the company is also found in Addis Ababa. Moreover, Addis Ababa is a better representative of the nations and nationalities of the country.

1.8 Organization of the Study

The study comprises five main chapters. Chapter one is devoted to the general introduction covering the background of the study, the statement of the problem, the objectives, significance, scope and how the research was organized. Chapter two is mainly concerned

with the review of related literatures on customer retention determinants as well as the impact on corporate performance. Chapter three provides the methodology that was applied to achieve the research objectives including primary data and method of analysis. Chapter four covers the analysis and presentation of data. This chapter discusses the result obtained in accordance with the research questions. Finally, chapter five deals with conclusions of the findings and recommendations forwarded.

CHAPTER TWO

REVIEW OF RELATED LITERATURE

This Chapter reviews literatures relevant to the study. The main focus of the study is on customer retention and its determinants. Accordingly, the review looks at the concept of customer retention and the proposed factors that affect customer retention; i.e., satisfaction, trust, price and switching barriers in the insurance sector. Thus, the effect of each variables suggested by different authors are discussed in this chapter. Then, an empirical review of different researches has been made.

2.1. Customer Retention

Customer retention involves the steps taken by a selling organization in order to reduce customer attrition. Successful customer retention starts with the first contact an organization has with a customer and continues throughout the entire lifetime of a relationship. Many studies have conducted that show how significant customer retention is for firms and what factors affect it. For example, the longer a customer stays with an organization the more utility the customer generates (Reichheld and Sasser, 1990). According to another research, this is an outcome of a number of factors relating to the time the customer spends with the organization which includes the higher initial costs of introducing and attracting a new customer, increases in both the value and number of purchases, the customer's better understanding of the organization, and positive word-of-mouth promotion (Havaladar et al, 2012). In addition, retaining customers saves the effort and cost of gaining new ones. Rust and Zahorik (1993) argue the financial implications of attracting new customers may be five times as costly as keeping existing customers.

Customer retention is important to most companies because the cost of acquiring a new customer is far greater than the cost of maintaining a relationship with a Current customer (Ro King, 2005). The argument for customer retention is relatively straightforward. It is more economical to keep customers than to acquire new ones. The costs of acquiring customers to “replace” those who have been lost are high. This is because the expense of acquiring customers is incurred only in the beginning stages of the commercial relationship (Reichheld and Kenny, 1990). In addition, longer-term customers buy more and if satisfied may generate positive word-of mouth promotion for the company. Additionally, long-term

customers also take less of the company's time and are less sensitive to price changes (Srivastava and Lurie, 2001).

These findings highlight the opportunity for management to acquire referral business, as it is often of superior quality and inexpensive to obtain. Thus, it is believed that reducing customer attrition by as little as five percent can double the profits (Srivastava and Lurie, 2001). Customer retention only focuses on developing marketing strategies that cause repeat-purchasing behavior and ignores factors that influence such behavior (Hennig-Thurau and Klee, 1997). Currently, although the concept of customer retention is applicable to all types of businesses, financial firms seem to be in the forefront of studying the impact of retention on profits. This makes customer retention one of the priorities of strategic management. But retaining customers is not an easy task. Many factors are making retention a difficult task for managers.

2.2. Factors Affecting Customer Retention

There are many factors that affect customer retention. But in light with the objective of the research and its research questions, only four of the factors are discussed here.

2.2.1. Customer Satisfaction

Customer satisfaction is defined as an "evaluation of the perceived discrepancy between prior expectations and the actual performance of the product" (Tse and Wilton, 1988, Oliver 1999). Many published works consistently cite customer satisfaction as an important antecedent of customer retention. Customer satisfaction is regarded as the key to customer retention (Kotler, 1994) and has been taken as a fundamental determinant of long-term customer behavior and customer retention (Oliver, 1980; Yi, 1990). Customer satisfaction has a significant impact on repurchase intentions in a range of services (Cronin and Taylor, 1992; Patterson, Johnson & Spreng, 1997).

The statement "investing in customer satisfaction is like taking out an insurance policy. If some temporary hardship befalls the firm, customers will be more likely to remain loyal" (Anderson and Sullivan, 1993, p.160) is endorsed by another statement that: The key to customer retention is customer satisfaction Satisfying customer needs and wants ensures repeat purchase (Kotler et al., 2002). The service that is given to the client during policy agreement (underwriting) and during claim settlement process are the main factors that determine customer satisfaction in insurance industry. Fast and prompt service increases

customer satisfaction and on another hand customer satisfaction leads to customer retentions.

2.2.2 Trust

Trust is defined as ‘the extent to which a person is confident in - and willing to act on - the basis of the words, actions, decisions of others’ (McAllister, 1995). In the consumer-brand domain, trust is described as the willingness of the consumers to rely on the capability of the brand to act on the promises it has claimed to fulfill (Chaudhuri and Holbrook, 2001). In the financial services market, trust, together with honesty, fairness or excellence, has been taken as one of the basic consumer needs (Bayne, 1999). Customer trust holds the key mediating role in successful relationship marketing (Morgan and Hunt, 1994).

For repurchases, customer trust in a firm is the principal mediator between product or service attributes and customer retention (Garbarino and Johnson, 1999). Customer trust significantly contributes to sales growth through customer acquisition and retention. The development and upkeep of trust in a business environment is critically important, especially in such a highly unpredictable market with reduced product differentiation as insurance (Fournier and Yao, 1997; Urban et al., 2000; Papadopoulou, et al., 2001)

It was reported that building customer trust and convenience is the most appropriate strategy for commerce-based businesses (Garbarino and Johnson, 1999). As per the various literatures reviewed, trust has been found to be related with customer retention. When we take the insurance industry specific view, trust is of a high value since insurance companies only sell a promise and a full level of trust is expected from the customer.

2.2.3 Premium Price

In insurance premium means, a fee paid for getting insurance protection. It varies from one insurance company to the other, making it a potential factor for attrition. Price may be one of the most important determinants of customer decisions (Srivastava and Lurie, 2001). Managers could utilize price matching to stimulate repeat purchase behavior (reducing price defection), because price matching may indicate a commitment to protect customers in order to keep customers happy so they would come back and buy again.

Nevertheless, previous research findings suggest that repeat (existing) customers focus less on price savings than new customers do (Reichheld and Sasser, 1990). Understanding long-term price matching effects on customers is important in order to determine whether

price matching has a lasting impact on customer behavior that is evaluating the effectiveness of these policies in stimulating customer retention, in addition to customer acquisition (Kukar Kinney, 2006).

2.2.4 Switching Barriers

Perceived switching barriers is defined as the consumer's assessment of the resources and opportunities needed to perform the switching act, or alternatively, the constraints that prevent the switching act (Bansal and Taylor, 1999; Ranaweera and Prabhu, 2003). Customer retention refers to the predisposition of the customers not to switch to other bank in the long time.

Study showed that while you invest in time, money and your effort, all of these items define switching costs which in result make your perception as difficulty to switch. Researches also show that switching barriers may have both main and interaction effects on customer retention (Gremler and Brown, 1996; Bansal and Taylor, 1999; Lee et al., 2001). As a consequence, when switching barriers are high, service firms may continue to retain customers even if they are not highly satisfied.

As it is already mentioned that the switching costs deemed as the investment of time, money and effort. As in the customers' perception, these switching costs make difficulty for buyers to switch and change from one retailer to others (Gremler and Brown, 1996). Given that the time and effort required switching are perceived to be important switching barriers, service providers may therefore wish to focus on service features that increase switching costs without necessarily creating absolute barriers to switching. Indeed, researcher suggests that an ideal way for firms to prevent customer resentment is to create switching barriers that also add value to the service (Ranaweera, C. and Prabhu, J., 2003).

Daniell (2000) and Noe (1996) further discovered that customers who have several accounts with a bank are much more likely to remain loyal. The same is applicable in insurance industry. The customer who have different class of business, like fire, marine, motor, engineering liability, workmen compensation etc...will suffer to withdraw his/her business at a time because of the existence of Switching Barriers like facilitating a new pre-risk survey for each of his property, dealing with new price and price settlement arrangement, adapting new system and staff culture, and the amount of paperwork involved. These factors highly determine customer retention. Therefore, this research would like to evaluate the relationship between switching barriers and customer Retention.

2.3 Empirical Review

The area of customer retention and factors affecting it is one of the well researched areas of marketing (Havaldar et al, 2012). Cohen et al. (2006) examined several factors that influence consumers' decisions to stay with or leave their banks in New Zealand. The results of the study suggested that the most important factors for customer retention were customer satisfaction, followed by the corporate image, and switching barriers.

2.3.1 Relationship between Customer Satisfaction and Retention

There are many researches that are conducted to test the relationship of customer satisfaction and retention. The researches on customer satisfaction and customer retention shows a general positive relationship between customer service and customer retention. Nam et al (2007) found that a 10% increase in service quality (customer satisfaction) leads to a 7% increase in customer lifetime value. Ranaveer et al. (2003) also showed that perceptions of service quality have a direct linear relationship with customer retention even in mass services with low customer contact. Havaldar et al (2012) also show that organizations providing superior basic customer service had a higher rate of customer retention (51.08%) than organizations delivering inferior basic customer service (33.18%).

A study by Leeds (1992), claimed that approximately 40 percent of customers switched banks because of what they considered to be poor service. Leeds further argued that nearly three-quarters of the banking customers mentioned teller courtesy as a prime consideration in choosing a bank. However, another research finds a result that is a bit puzzling. Reichheld (1996) suggests that unsatisfied customers may choose not to switch, because they do not expect to receive better service elsewhere. Additionally, satisfied customers may look for other providers because they believe they might receive better service elsewhere. This is the only research so far that this researcher has found to be in contradiction to the largely acclaimed thought of satisfaction leading to retention.

2.3.2 Relationship between Trust and Customer Retention

Jobber (2007, 903), says customer retention relies heavily on building trust. This is the case especially with service companies due to the difficulty of comparing and assessing services before buying. According to Isomuotia (2014), feeling is an important resource of the customer relationship and the stronger the mutual feeling is the more durable the relationship will be. This research also concludes that the most significant factor in building a lasting relationship between a customer and a firm is by building trust. The reason mentioned for this is that trust is a behavior that changes slowly.

One aspect of trust to a firm is reflected in its brand strength and image quality. Harwood (2002) argued that branding, as a tool to build image, is critical in the banking industry where all firms offer about the same kinds of products. Hence, it is critical that banks have a comprehensive knowledge of customers' values, attitudes, needs and perceptions of various services the bank offers and the image which customers have of the bank itself (Kaynak, 1986). Bharadwaj et al. (1993) argue that services are highly intangible and are, therefore, high in experience and credence qualities. As a consequence, brand reputation is important as a potential competitive advantage. This is also true for insurance companies.

2.3.3 Relationship between Premium Price and Customer Retention

Today, customers are more value oriented in their consumption of services because they have alternative choices (Slater, 1997; Woodruff, 1997). Ranaveer et al. (2003) showed that price perceptions and customer indifference were found to have a direct linear effect on customer retention. Reidenbach (1995) argued that customer value is a more viable element than customer satisfaction because it includes not only the usual benefits that most banks focus on but also a consideration of the price that the customer pays. Customer value is a dynamic that must be managed. Customer satisfaction is merely a response to the value proposition offered in specific products/markets (Reidenbach, 1995). By this view, insurances must determine how customers define value in order to provide added-value services.

2.3.4 Relationship between Switching Barriers and Retention

Switching barriers have been used as marketing strategies to make it costly for customers to switch to another organization. Such barriers include search costs, transaction costs, learning costs, loyal customer discounts and emotional costs (Fornell, 1992). Curasi and Kennedy (2002) have shown that customer satisfaction does not predict the continuation of the relationship. High switching costs are an important factor binding the customer to the service organization. Even with relatively low levels of satisfaction, the customer continues to patronize the service provider because repurchasing is easier and more cost effective than searching for a new provider or sampling the services of an unknown provider (Curasi and Kennedy, 2002).

In a qualitative research conducted on the effect of switching barriers on customer retention in the banking sector, Suryani & Chaniago (2008) conclude that switching barriers have a positive impact in keeping customers with their current banks.

To conclude this chapter, with the ever increasing trend of competition, customer attrition will continue to be one of the headaches of organizational managers. Customers are becoming aware of their decisions and with easiness of access to information; there is little chance of making decisions without being informed first. This makes customer retention one of the most important priorities of firms. There are different factors that affect customer retention. Among those, four factors such as satisfaction, trust, price and switching brainier are selected and discussed in this chapter. They are selected due to their relevance to the insurance sector under the study. The following figure shows the conceptual research model showing the relation between customer retention and determinant factors.

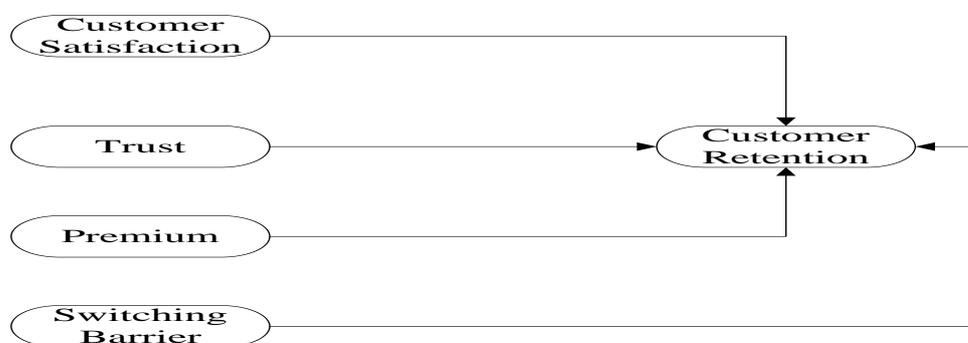


Figure 1: conceptual framework of the study

CHAPTER THREE

RESEARCH DESIGN AND METHODOLOGY

This chapter describes how the study was conducted. It outlines the approach and strategy that was used in undertaking the study. The chapter also defines the sample that are used to conduct the study, including the statistical techniques used to analyze the data.

3.1 Research Design

According to Robson (2002), based on the purposes they serve, researches can be categorized into three types: explorative, descriptive, and explanative. Exploratory research is characterized as the seeking of new insights, the ‘looking around’, and the asking of questions or the bringing of some phenomenon into new light. Descriptive research is characterized as the depicting of accurate profile of people, events, or situations. Finally, explanatory research aims at gaining an explanation of a specific problem, generally in the form of causal relationships (Robson, 2002).

Even though all of these research types have their own features and differences, they are inseparable in many ways. One cannot explain the relation of two things without first describing them. Similarly, it is almost impossible to explore new things without explaining the current situation and relationships. Therefore, a research might be one of the above three types primarily but it inevitably encompasses many features of the other two types of researches.

This research is primarily an explanatory research because it aimed at examining the relationship between customer retention as a dependent variable and customer satisfaction, premium price, trust and switching barrier as independent variables. The finding of this

research explains the relation of each independent variable with the dependent variable that makes the research type causal. However, it has also some features of descriptive research in the sense that it views how customers express their sentiment regarding NISCO using the dimensions provided.

A research can also be either of qualitative or quantitative in nature. Quantitative research designs are those which generate numerical data and use statistics to improve numerical data (Leedy and Ormord, 2005:147) while qualitative designs are those that involve human events such as human interactions, social organizations, and the like (Newman and Benz, 1998: 12). Quantitative design is helpful to assess the magnitude of something while qualitative design is suitable to describe, interpret, verify and evaluate a given phenomenon (Newman and Benz, 1998: 12).

This research uses a quantitative design. This is due to the nature of the research and the research question. Besides, the objective of the research is to quantify the magnitude of the impact of each independent variable on dependent variable. Using quantitative design, the research tried to quantify the correlation type and strength between the independent variables (customer trust, satisfaction, premium price and switching barrier) and its dependent variable (retention rate).

3.2 Population and Sampling Techniques

3.2.1 Population

To quantify the impact of the independent variables on the dependent variable in Nyala Insurance S.C., an appropriate population should be determined. Accordingly, the researcher has identified that the total population size of the research is the number of customers of the Company. The overall number of customers of the Company is around 5000. But since studying the total population size of customers of the Company is not manageable, it is necessary first to deduce the number of the target population.

To reduce the number of target population of the research, the researcher has decided to take the customers of company found in Addis Ababa branches. Therefore, the target population for this study is the customers of Nyala Insurance S.C of Addis Ababa branches. According to the data taken from the Company, it has 11 branches and customers that are 2000 in number who have an active policy. Thus, the population size for this study is two thousand.

3.2.2 Sampling Technique

Once the total population size is determined, the next issue is to decide how many of this target population will be enough to answer the research questions adequately. It is known that for the conclusion to be free of bias, samples should be representative enough to the general population size. Therefore, an appropriate formula has to be taken to minimize the risk of bias.

Accordingly, Kothari (2004) has introduced a formula which can determine the correct sample size for a certain amount of target population. The formula is:

$$n = \frac{z^2 PQN}{e^2(N - 1) + z^2 PQ}$$

Where;

n = sample size

N = population size

e = sample error at 1%

z = the confidence level at 99% which is 2.58

P = the proportion of getting failure=0.01

Q = 1-P=probability of success=0.99

To use this formula, the researcher is expected to choose the degree of precision and level of confidence that is preferable for him/her. The researcher of this study had chosen the precision rate of sampling to be 99% and is willing to tolerate only 1% sampling error. Therefore, using the formula the researcher has identified a sample of 119 from the target population of 2,000 customers. Adding 24 as a contingency, 143 questionnaires were distributed to the branch offices.

Beside their number, the samples must represent the total population by their character. A wrong sample selection will lead to poor conclusions. Therefore, due to the nature of the business, the researcher had used convenience sampling method by which respondents were selected based on their availability at branches. This is due to the difficulties to reach the customers.

3.3 Types of data and Instruments of data collection

3.3.1 Types of Data

Both primary and secondary data were used in this research.

Primary Data:

The primary data was collected from the customers of the insurance company's 11 branches in Addis Ababa. This is the backbone of the research's quantitative analysis. Primary data was collected using questionnaire as a method of data collection.

Secondary Data:

Since secondary data is also as important as the primary data, the researcher has collected essential data from secondary sources. The Company's data about the number of customers, number of branches, etc. were taken from the Company's annual report. Other secondary sources of data also include books, research papers (both published and non-published), internet sources, and articles from different magazines have taken.

3.3.2 Instruments of Data Collection

The data collection instrument that this research was used is questionnaire. Questionnaire is chosen as a means of data collection because it is effective to collect data about “facts, activities, level of knowledge, opinions, expectations and aspirations and attitudes and perceptions” (Siniscalco and Auriat, n.d:7).

The questionnaire were comprised of close-ended questions which were developed in accordance with the quantitative and qualitative data needs to address the research questions. The close-ended questions are easy to manage, respond and code (Siniscalco and Auriat, n.d:7). Hence, they offer an opportunity to present many questions to respondents without exhausting their time.

3.4 Procedures of Data Collection

After developing the research questionnaire, it was pilot tested. Ten randomly selected customers were asked to complete the questionnaire and suggest if they found problem in filling the questionnaire. They completed the questionnaire and forwarded their comments, which were used as a feedback to correct some errors.

Finally, the Questionnaires were distributed equally (eleven for each) to all Addis Ababa branches of NISCO. Then with the help of NISCO staffs, the questionnaires were filed by the respective customers of each branch who were available at the spot and collected subsequently.

3.5 Method of Data analysis

After the required data is collected, the research was conducted on a three tiered analysis basis using statistical package for Social Science (SPSS) version 20. In the first tier of analysis, descriptive statistics such as proportions were used to summarize categorical

variables, mostly the demographical data. Then on the second tier of analysis, the relationship between each independent variable with the dependent assessed using cross-tabulation method. Finally, after all independent variables identified to significantly associate with retention using the above method, their collective impact on retention has analyzed using binary logistic regression. All exposure variables (independent variables) have associated with the dependent variable (retention) to determine which ones had significant association. Odds Ratio (OR) and 95% Confidence Interval (CI) were used to estimate the strength of association between independent variables and the dependent variable. The threshold for statistical significance was set at $p = 0.05$.

3.6. Validity and Reliability

According to Muller (2011), validity and reliability are measures used in quantitative research to assess the accuracy of the measurement tool and its consistency. Validity refers to the extent we are measuring what we hope to measure (and what we think we are measuring) while Reliability is concerned with questions of stability and consistency - does the same measurement tool yield stable and consistent results when repeated over time. Both types of measures are important tools to reach at a valid research result. Therefore, to achieve this, the researcher has used the following mechanisms.

There are two ways that reliability is usually estimated: test/retest and internal consistency (www.pdx.edu). As a result, the questionnaire items were pilot tested to remove confusing words and to improve upon the clarity of the question items to strengthen its reliability.

Validity on the other hand, is the strength of our conclusions, inferences or propositions, or put simply, it is defined as the "best available approximation to the truth or falsity of a given inference, proposition or conclusion" (www.pdx.edu). To assure validity to the research, the researcher has used Cronbach's Alpha test. The result of this test according to

SPSS version 20 is 0.8 which is good based on George & Mallery (2003) scale of reliability reference. Validity result for each independent variables portrayed below.

Table 1: validity stastics

Description	Number of Items	Cronbach's alpha
satisfaction	5	.592
trust	5	.647
Price	5	.463
Switching Barrier	5	.528
Overall Statements	20	0.83

The other type of validity, external validity, refers to the ability to generalize the results of a study to other settings (www.pdx.edu). The research is mainly focused on insurance companies and it takes one company into focus. Therefore, the findings are relevant to the company under scrutiny, and to some extent, to other insurance companies in the country which have many branches in Addis Ababa.

3.7 Ethical considerations

The necessary precaution was taken to make the study ethical. Respondents were informed ahead about the purpose of the data they were providing. They were told that the information they provide via the questionnaire is going to be used only for the purpose of academic study and remain confidential. They were also assured that their identity would be anonymous for a research. As it was promised, their privacy and identity was not disclosed.

CHAPTER FOUR

RESULTS AND DISCUSSION

This chapter presents the analysis of the data collected from respondents. The chapter intends to address the research questions using the data collected from the sample respondents. The chapter is organized into three sections. The first section presents the demographic data of the respondents. In the second section, the relationship between the independent variables and the dependent variable were assessed. This section first test the relationship of each independent variable with the dependent variable by using cross tabulation method. Then, it summarizes the effect of all of the independent variables on the dependent variable using binary logistic regression. Finally, the results are discussed in the last section of this chapter.

4.1 Demographic Data

From the total 143 questionnaires that were dispatched, 129 were returned, which makes the response rate 90.2 %.

The following table summarizes the demographic data of respondents:

Table 2: Demographical Data of the Respondents

Variable	Category	Number	Percentage
Gender	Male	86	66.7
	Female	43	33.3
Age	Less than 25	6	4.7
	25-35	24	18.6
	36-50	64	49.6
	Above 50	35	27.1

As it can be seen in the above table, the gender composition of respondents is more of male dominated. There are two male respondents for every female respondent, or two-third of

the respondents are male. When we see at the age distribution of the respondents, 36 – 50 years of age comprises nearly half of the respondents. It is followed by respondents with an age range of 50 and above, which is 27.1%. The least represented age group is the age group of below 25 years, which encompasses only 4.7%. Respondents with an age of 25 – 35 constitute 18.6%.

4.2 Data Analysis

A questionnaire with two demographical and twenty-one main questions was developed to answer the research questions. The first two demographic questions focus on gender and age. The other part of the questionnaire comprises twenty-one questions. Each five questions are used to assess the scenario and to develop a relationship between each independent variable with the dependent variable. The last question was used to measure the general feeling of the respondents regarding continuation of NISCO's service or not. The results obtained through different statistical techniques are presented as follows.

4.3 Retention Rate of NISCO

As it is discussed in chapter one, Nyala Insurance company has a higher attrition rate. Last year's annual attrition rate was thirty percent. Therefore, to assess what the trend looks in future, the respondents were asked whether they see themselves in the Company for the future. The following chart presents the result

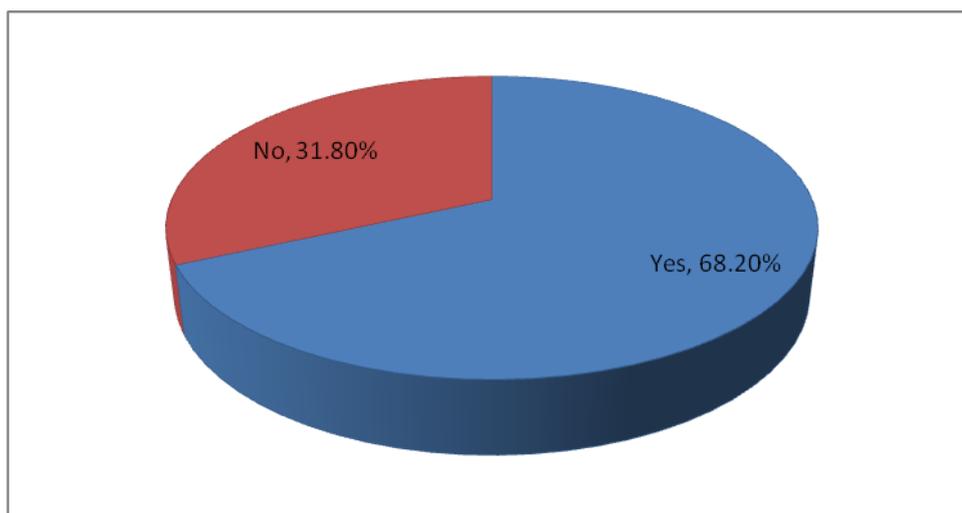


Figure 2: Respondent's response towards keeping relation with NISCO in future

As it can be seen on the above pie chart, 31.8% of the respondents do not see themselves in the company in the future. The remaining 68.2% of the respondents, however, seem loyal

to NISCO. Thus, the result signifies there is still an increasing attrition rate, which negatively affect the company's profitability and growth. The figure is very high and is an indication of a gap in the service package especially in our local context where companies are offering identical type of products. In such type of scenario, regaining a lost customer is usually cumbersome and may cost the company a lot.

4.4 The Current Status of NISCO

This section tries to assess the relationship between each of the independent variables (customer satisfaction, trust, premium price and switching barriers) to the dependent variable (retention). To do so, the section will look at the independent variables one by one and finally all in one. Picking each independent variable at once, it first assessed the status of the company in relation with independent variables, and then it has tried to assess the effect of the variable on retention.

4.4.1 Customer Satisfaction

For the purpose of this research, satisfaction refers only to examine service quality. To assess the level of the respondent's satisfaction, four statements were presented for respondents to rate them on a Likert scale. The following table presents the responses in each statement and the average reaction of respondents in all of the statements. The average result is found by computing the responses in each statement. That is why there are decimals in the frequency (number) columns.

Table3: Responses Related to Customer Satisfaction

	Statement 1		Statement 2		Statement 3		Statement 4		Average	
	No.	%	No.	%	No.	%	No.	%	No.	%
Strongly disagree	14	10.9	13	10.1	3	2.3	12	9.3	10.5	8.1
Disagree	38	29.5	24	18.6	57	44.2	30	23.3	37.25	28.9
Neutral	7	5.4	5	3.9	9	7.0	10	7.8	9.25	6.0
Agree	61	47.3	63	48.8	58	45.0	65	50.4	61.75	48.9
Strongly Agree	9	7.0	24	18.6	2	1.6	12	9.3	11.75	9.1

The first statement posed to the respondents was whether the company's terms and conditions are favorable for them. As the table shows, the response of the respondents is a little bit mixed. Though almost half of the respondents agree to the statement, nearly one third of the respondents are on the opposite side. More than tenth of the respondents strongly disagree to the claim while 7 percent of them agree strongly.

The second statement asked in relation to customer satisfaction is whether the Company's branches and operating hours are convenient to the respondents. Two-third (67.4%) of the respondents agree (18.6% of whom agreed strongly) to the notion that the branches and operating hours are convenient to them. Only 10% of the respondents disagreed strongly while 18.6% disagreed.

The third statement intends to look at the respondents' appraisal of the company's employees. As it is shown on the table, the outlook towards the competence and ethics of the employees of the company is a bit mixed. While 46.5 percent of the respondents agree to the statement, almost identically equal amount of respondents (46.6%) disagreed.

The last statement on customer retention wants to seek the view of respondents' about the company's competence in providing prompt customer services and attends to customers' needs and problems. As it is shown vividly in the table, 9.3% of the respondents strongly agree to the claim that the company gives prompt customer services and attends to customers' needs/problems. More than half of the respondents (50.4%) also agreed with the statement while 7.8% of the respondents are undecided. However, nearly quarter of the respondents did not agree and a further 9.3% strongly dispute the claim.

In general, as the column on of the average respondent's response shows, 8.1% of the respondents strongly disagree with NISCO's ability to address customer satisfaction. In addition, nearly one third of the respondents, 28.9%, disagree. On the other hand, nearly half of the respondents are agreed with the statements. Besides, 9.1% seem to be strongly satisfied with the customer service whereas 6.0% remain undecided on the matter. It can be referred that more than 37% of the respondents showed a negative response with respect to the statements, which is a clear indication for the gap in the satisfaction. This has an implication that the company has a deficiency in those aspects.

4.4.2 Trust

The same way as it is done to customer satisfaction, four statements that can measure trust were forwarded to the respondents. They were about the company's dependability,

successfulness, brand reputation and the level at which it keeps promises. The questions are selected taking the value of trust in the insurance company. Since the main purpose of insurance companies is selling promise, trust is highly significant in the sector. In light with this expectation, four questions were forwarded and the results of the respondents' response are compiled and presented in the following table with the last column showing the average score in each scale.

As it can be seen in table 4 below, in the first statement, from the respondents, 43.4% agreed to the notion while another 17.8 percent also strongly agreed with it. However, 28.7 percent of the respondents do not believe that the company is dependable and consistent in solving customers' complaints. 13 of the respondents remained neutral on the statement.

Table 4: Responses Related to Trust

	Statement 1		Statement 2		Statement 3		Statement 4		Average	
	No.	%	No.	%	No.	%	No.	%	No.	%
Strongly disagree	10	7.8	11	8.5	11	8.5	2	1.6	8.5	6.6
Disagree	27	20.9	39	30.2	32	24.8	28	21.7	31.5	24.4
Neutral	13	10.1	8	6.2	7	5.4	12	9.3	10	7.7
Agree	56	43.4	48	37.2	70	54.3	70	54.3	61	47.3
Strongly Agree	23	17.8	23	17.8	9	7.0	17	13.2	18	14.0

As can be seen on the table, the respondents' responses to the second statement, "The Company is successful in the insurance industry of the country", is somewhat inclined to positivity. More than half the respondents (55%) believe Nyala Insurance is a successful company in the insurance sector of Ethiopia. Only 38.8% of the respondents contend to this idea while 6.2% remained neutral.

On the third statement, 11 respondents (8.5%) of the respondents disputed the claim by choosing 'strongly disagree'. Almost quarter of the respondents disagreed while 5.4% remained neutral on the statement. Seventy respondents (54.3%) of the respondents agree to the statement and nine respondents (7%) strongly agree with the statement.

In the last statement, insignificant numbers of the respondents (1.6%) strongly disagree with notion that says the Company is truthful in keeping its promises and is successful in completing insurance claims settlements. One fifth of the respondents (21.7%) disagree with the statement while 9.3% remained undecided. However, more than half the respondents (54.3%) believe the company is truthful in keeping its promises and is successful in completing insurance claim settlements. A further 13.2% agreed strongly.

In summary, as it is shown in the last column of average responses, 6.6% of the respondents strongly distrust the company while a further quarter of the respondents (24.4%) have opted for disagreeing with the statements. 7.7% are undecided or neutral. But more than 60% of the respondents have a trust with the company. While 47.3% of the respondents are agreed with the statements, 14.0% agreed strongly. This has an indication that there are aspects pertinent to the statements that has resulted in a deterioration of the trust level of a considerable number of customers. Thus, it can be said that there is a lot to be done by the company in securing the confidence of the remaining customers.

4.4.3 Price

four questions were presented to the respondents to assess their feeling towards the price, service charge and pricing mechanisms of the company.

The following table presents the summarized result of the questions.

Table 5: Responses Related to Price

	Statement 1		Statement 2		Statement 3		Statement 4		Average	
	No.	%	No.	%	No.	%	No.	%	No.	%
Strongly disagree	7	5.4	20	15.5	15	11.6	10	7.8	13	10.1
Disagree	30	23.3	28	21.7	59	45.7	47	36.4	41	31.8
Neutral	13	10.1	12	9.3	3	2.3	16	12.4	11	8.5
Agree	69	53.5	50	38.8	40	31	43	33.3	50.5	39.2
Strongly Agree	10	7.8	19	14.7	12	9.3	13	10.1	13.5	10.5

On average, 13 (10.1 %) of the respondents strongly disagree with the overall questions that focused on the fairness of the premium price, service charge, and pricing mechanism of the company. On average, the other 31.8% of the respondents disagree with these items. The result has showed that, 41.9% of the respondents are not happy with the price and pricing mechanisms of NISCO. Nearly half of the respondents (49.7%) have agreed on these issues while 8.5% are neutral on the matter. The following graph presents the data in a vivid way. The result has a connotation that the pricing mechanism is still unacceptable for a considerable (nearly half) number of the customers.

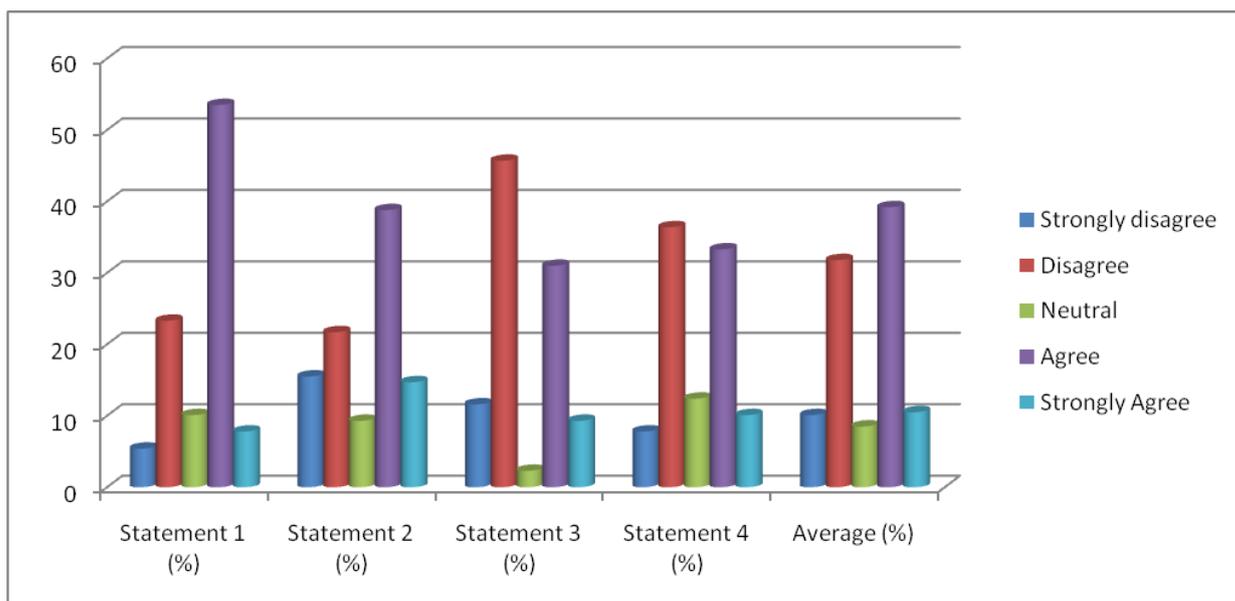


Figure 3: General feeling of Respondents about Premium Price

4.4.4. Switching Barrier

Four statements were presented to respondents to measure the feeling of respondents towards switching barriers.

The following table summarizes the responses.

Table 6: Responses Related to Switching Barrier

	Statement 1		Statement 2		Statement 3		Statement 4		Average	
	No.	%	No.	%	No.	%	No.	%	No.	%
Strongly disagree	12	9.3	21	16.3	10	7.8	21	16.3	16	12.4
Disagree	40	31	39	30.2	26	20.2	48	37.2	38.25	29.6
Neutral	9	7	9	7	4	3.1	8	6.2	7.5	5.8
Agree	56	43.4	44	34.1	59	45.7	43	33.3	50.5	39.1
Strongly Agree	12	9.3	16	12.4	30	23.3	9	7	16.75	13

As can be seen on the table, the responses are distributed to the two halves. 12.4% and 19.6% (a total of 42%) have disagreed to the statements, whereas 39.1% and 13% (a total of 52.1%) have agreed with the statements that measure about the level of switching barriers in the industry, NISCO and other insurance companies. An average of 5.8% remained neutral on the matter. The following diagram presents the results in a pictorial way.

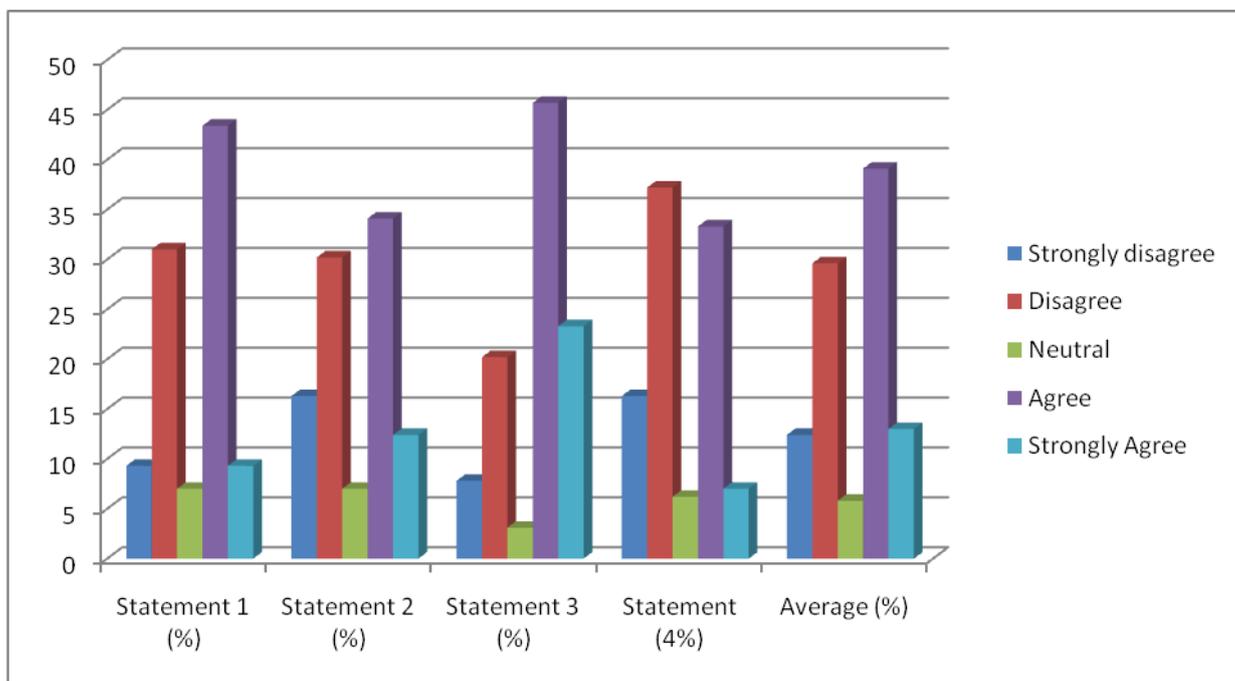


Figure 4: General feeling of Respondents about switching barrier

4.5 Cross Tabulation of Variables

After the respondents response to the independent variables is assessed using the above results, the next task is to correlate between the independent variables and dependent variable. This section presents the data found by cross-tabulating each independent variable with the dependent variable.

4.5.1 Cross tabulation of Customer Satisfaction and Retention

Table 7: Crosstab: Customer Satisfaction with Retention

			Retention		Total
			Yes	No	
Satisfaction	Yes	Count	62	10	72
		% within Satisfaction	86.1%	13.9%	100.0%
		% of Total	48.1%	7.8%	55.8%

	No	Count	26	31	57
		% within Satisfaction	45.6%	54.4%	100.0%
		% of Total	20.2%	24.0%	44.2%
Total		Count	88	41	129
		% within Satisfaction	68.2%	31.8%	100.0%
		% of Total	68.2%	31.8%	100.0%

Generally, 72 respondents (55.8%) said they are satisfied with the service of NISCO while 57 respondents (44.2%) are not satisfied. From the satisfied customers, only 10 (13.9%) do not see themselves in the company in the future while 62 (86.1%) believe they will continue using the service of NISCO. From the 57 people who are not satisfied with the service of the company, 31 (54.4%) do not want to continue with NISCO. However, 26 (45.6%) want to continue with the company even though they are not satisfied with the service.

Overall, 48.1% of the respondents are satisfied with the service and want to continue; 7.8% percent of the respondents are satisfied with the service but do not want to continue with it. In addition, 20.2% of the respondents are not satisfied with the service but want to continue with NISCO and finally, 24% of the respondents are not satisfied with the service and hence do not think they will continue with company.

4.5.2 Cross tabulation of Trust and Retention

Table 8: Crosstab: Trust with Retention

			Retention		
			Yes	No	Total
Trust	Yes	Count	70	9	79
		% within Trust	88.6%	11.4%	100.0%
		% of Total	54.3%	7.0%	61.2%
	No	Count	18	32	50
		% within Trust	36.0%	64.0%	100.0%
		% of Total	14.0%	24.8%	38.8%
Total		Count	88	41	129
		% within Trust	68.2%	31.8%	100.0%
		% of Total	68.2%	31.8%	100.0%

From the respondents, 79 (61.2%) have an overall trust on the insurer. The remaining 50 respondents (38.8%) do not have a trust on the company. Among those who have trust on the company, 9 customers (11.4%) do not see themselves as customers of their current insurer in the near future. But an overwhelming 88.6% of the respondents with trust to the company believe they will continue using the company. From the 50 respondents who have no trust on the company, 32 respondents (64%) predict themselves not using the company's services in the future. Only 18 respondents with no trust to the company (36%) believe they will continue with the company albeit lack of trust.

Overall, 70 respondents (54.3%) of the total respondents have trust on the company and want to continue with the company. Nine respondents (7%) have a trust on the company but they do not want to continue using the company's services. 18 respondents (36.0%) do not have trust but they do not want to quit their business with the organization. Finally, 32 respondents (24.8%) of the respondents do not have trust on the company and they want to exit NISCO.

4.5.3 Cross tabulation of Premium and Retention

Table 9: Crosstab: Premium with Retention

			Retention		Total
			Yes	No	
Price	Yes	Count	34	20	54
		% within Price	63.0%	37.0%	100.0%
		% of Total	26.4%	15.5%	41.9%
	No	Count	54	21	75
		% within Price	72.0%	28.0%	100.0%
		% of Total	41.9%	16.3%	58.1%
Total	Count	88	41	129	
	% within Price	68.2%	31.8%	100.0%	
	% of Total	68.2%	31.8%	100.0%	

In summary, 54 of the respondents (41.9%) believe the price, service charge and pricing mechanism are fair. But a little higher number (75) of the respondents (58.1%) believe the price is not fair. From those who believe the premium is fair, 34 (63%) of the respondents predict they will continue with the company. The remaining 20 respondents (37%) will not

continue with the company although they believe the premium is fair. From the 75 respondents who believe the price is not fair, 54 respondents (72%) forecast a continued attachment with the company. The other 21 respondents (28%) are not willing to continue with the company due to the price.

Overall, 26.4% of the whole respondents believe the price is fair and want to continue with NISCO. But 15.4% of the respondents want to quit the organization though they believe the company's premium is fair. The other 41.9% of the respondents do not believe the price of the insurer is fair but they want to continue using their current services. The remaining 16.3% of the respondents do not think the premium price and service charges of the company are fair and want to leave it.

4.5.4 Cross tabulation of Switching Barrier and Retention

Table 10: Crosstab: Switching Barrier with Retention

			Retention		Total
			Yes	No	
Switch Barrier	Yes	Count	60	20	80
		% within Switch Barrier	75.0%	25.0%	100.0%
		% of Total	46.5%	15.5%	62.0%
	No	Count	28	21	49
		% within Switch Barrier	57.1%	42.9%	100.0%
		% of Total	21.7%	16.3%	38.0%
Total	Count	88	41	129	
	% within Switch Barrier	68.2%	31.8%	100.0%	
	% of Total	68.2%	31.8%	100.0%	

In general, 80 respondents (62%) believe the switching barriers of the insurance sector are keeping them from changing their current insurer. However, 49 respondents (38%), believe there are no binding strings in their relation to their current insurer or changing between insurance companies. From those who believe there are switching barriers capable of challenging their decisions, 20 respondents (25%) believe they do not see themselves in the company for the future. But the majority of those who believe there is switching barrier, 60 respondents (75%), believe they will continue with NISCO. From the 49 respondents who

believe there are no feasible barriers that can compromise a planned switch between insurance companies, 21 (42.9%) do not see themselves as a sustained customer of NISCO. The remaining 28 respondents (57.1%) believe they will continue with the company in the future.

Overall, 46.5% of the whole respondents believe there is a barrier to switch and want to stay with NISCO. But 15.5% of the respondents want to quit the organization even though they believe there is barrier to switch between companies. The other 21.7% of the respondents do not believe there is a barrier to change but they want to continue using their current services anyway. The remaining 16.3% of the respondents do not think there is a barrier to switch and want to switch from their current insurer.

4.6 Result of Pearson Correlation Analysis

To measure the type and magnitude of correlation between variables, a Pearson correlation was carried out. The following table shows the result of the test.

Table 11: Result of Pearson Correlation Analysis

		<i>Satisfaction</i>	<i>Trust</i>	<i>Premium</i>	<i>Switching Barrier</i>
<i>Retention</i>	<i>Pearson Correlation</i>	.432**	.550**	-.096	.186*
	<i>Sig. (2-tailed)</i>	.000	.000	.021	.015
	<i>N</i>	129	129	129	129

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

* . Correlation is significant at the 0.05 level (2-tailed).

As it is seen on the table above, satisfaction has a correlation coefficient of 0.43 (at p-value 0.000). Trust has a coefficient of 0.550 at p-value of 0.000. Price has a Pearson r-value of -0.096 with a p-value of 0.21. Finally, switching barrier has a correlation coefficient of 0.186 at p-value of 0.15.

The explanations of these coefficients, as presented in the discussions section, are based on the standard classification of Pearson correlation coefficients. According to the standard interpretation, the value of r can be $-1 \leq r \leq 1$. If r is zero, that means there is no

correlation at all (Taylor, 1990). If it is greater than zero, the correlation is positive, and the higher the number, the stronger the correlation. If r is less than zero, the correlation type is negative, and the lower the number, the stronger the correlation is (Taylor, 1990).

4.7 Result of Binary Logistic Regression

The previous section shows the correlation between each of the independent variables with the dependent variable. As it is presented in the discussion section, it has showed the type and magnitude of the relationship. But to see the combined effect of all of the independent variables on customer retention, another method was used. Using binary logistic regression, the type and magnitude of the relationship between all of the independent variables (satisfaction, trust, premium and switching barrier) and the dependent variable (retention) was computed. The following table presents this finding. An odds ratio (OR) is a measure of association between an exposure and an outcome. Odds ratio can be one, less than one or greater than one. If OR is one, that means there is no relation between the two variables. If it is higher than one, that means there is a positive correlation. The higher the number, the stronger the correlation is. If OR is less than one, it means the correlation between the variables is negative. The lower the number, the higher the correlation is.

Table 12: result of Binary Logistic Regression

Variables	Retention		P-value	95% C.I. for Exp(B) (OR)
	Yes	No		
Satisfaction			0.001	3.015
Yes	62	10		
No	26	31		
Trust			0.000	6.694
Yes	70	9		
No	18	32		
Premium Price			0.001	0.94
Yes	34	20		
No	54	21		
Switching barrier			0.06	1.201
Yes	60	20		
No	28	21		

Remark: Association is significant at 0.05 levels.

As it can be seen in the table above, all the independent variables are significant at the 0.05 level except to switching barrier. This makes the variable insignificant. The other variables are all significant. Trust has happened to be the most determining factor of all variables in determining retention. Its OR is 6.69. The second most determining factor is satisfaction. Its OR is 3.0. Finally, the OR for premium price is 0.94.

4.8 Discussion of the Results

In this section, the main findings of the data presented in the previous sections were discussed in detail. Some of the key findings of the research were presented and have augmented with results of similar research endeavors in other settings.

4.8.1 The Attrition Rate of NISCO

Customer retention plays a pivotal role to the profitability of any kind of companies. Especially, for those companies which rely on the longevity of relationship with customers, it is a matter of life and death to keep customers as long as possible. But the ever increasing competition, the entrance of new rivals, advancement in technology and globalization are making retaining customers tougher than ever. Gaining sustainable competitive advantage over competitors through satisfying customer relationships has become one of the strategic weapons for a modern day service firm (Zeithaml et al, 2000). Within this extremely competitive market it necessitates insurance companies to follow a structured, data-driven approach to identify “at risk” customers and to launch proactive retention campaigns based on identified drivers of customer attrition.

Customer attrition rate varies from sector to sector. According to Fluss (2010), annual customer attrition rates range from 7% in industries that have high exit barriers such as banking and insurance, to almost 40% in the mobile phone industry. Another more meticulous and all inclusive computation of churn rates has put a wider range from 1% in Cable TV sector all the way to 93% in HD TV and Home Mortgage sectors (Kohs, 200). In this list of turnover rates, two insurance companies with attrition rate of 12% and 14% are registered (Kohs, 200).

The company under research, however, has already a 30% attrition rate in the last year annual calculation. The finding of this research does not have good news either. From the respondents, 31.8% do not see themselves with the company for a long period of time. This means an increase of 1.8% in attrition increase to the already alarming current rate. Since

all of the respondents of this research are current customers of Company, this shows the likelihood of increasing attrition rate.

This is uncharacteristic of an insurance company. This might mean two things: (1) the switching barrier of insurance sector in Ethiopia is significantly lower than the setting Fluss (2010) has done, or (2) the company has other severely pushing factors that force its customers to leave at the cost of the switching barriers. But since the switching barriers emanate from the basic essence of insurance sector, it is irrational to expect the Ethiopian scenario as unique. So, the tentative logical reason seems there are some inherent problems in the company that drive customers away.

4.8.2 Factors that Lead to Attrition in NISCO

Customer turnover of the company show a hugely alarming problem. Hence, the research has directed at finding out what leads customers to leave the company and which of the independent variables play the most determining factor in increasing the churn rate.

4.8.2.1 Customer Satisfaction

From the literature review, it was undisputedly found out that customer satisfaction has a positive impact on customer retention. According to a research conducted on financial sector enterprises, customer satisfaction has a great co-relation with customer value, especially customer lifetime value (Execution Mih, 2012). A satisfied customer adds to his current value, but more importantly it's the lifetime value which the organization will gain (Execution Mih, 2012).

From the univariate descriptive analysis of customer satisfaction, it is found that the respondents are almost equally divided into two categories. While 55.8% of them the respondents are satisfied with the service of the company, 44.2% are not happy with the service of the company. In some of the indicator questions of customer satisfaction also the score seems to be almost evenly divided on the Likert scale. On general, the satisfaction level of the respondents does not seem satisfactory.

From the literatures, it seems a conventional wisdom that with increase in satisfaction, retention will increase. Nam et al (2007) found that a 10% increase in service quality

(customer satisfaction) leads to a 7% increase in customer lifetime value. Ranaveer et al. (2003) also showed that perceptions of service quality have a direct linear relationship with customer retention even in mass services with low customer contact. Havaladar et al (2012) also show that organizations providing superior basic customer service had a higher rate of customer retention (51.08%) than organizations delivering inferior basic customer service (33.18%). A study by Leeds (1992), claimed that approximately 40 percent of customers switched banks because of what they considered to be poor service. Leeds further argued that nearly three-quarters of the banking customers mentioned teller courtesy as a prime consideration in choosing a bank.

This research is not an exception. As it is shown in the cross-tabular table, from the respondents who say they are satisfied with the service, the overwhelming majority (86%) think they will continue with NISCO while only 14% are willing to leave the company. On the contrary, less than half (45.6%) of the non-satisfied respondents want to stay while more than half (54.4%) want to leave.

This result was further augmented by the correlation analysis. Using the bivariate correlation analysis, it was found that customer satisfaction has a positive relation with retention. With a Pearson correlation of coefficient of 0.432 (at p-value of 0.0), customer satisfaction shows a significant impact on retention rate. According to the scale of Pearson's R-correlation, the type of correlation is positive and the magnitude is very strong.

Finally, the logistic regression commends this finding. The resulting OR of customer satisfaction to retention is 3.01 (at p-value of 0.001). This means a satisfied customer is three times more likely to be retained to the company than non-satisfied customer. Therefore, customer satisfaction is found to have a strong and positive influence on customer retention. The result implies NISCO should give much attention to its customer satisfaction in order to retain them.

4.8.2.2. Trust

As literatures and researches suggest, trust is the most fundamental determiner of customer retention, especially on service firms. This is even more evident in insurance sector. As it can be said, insurance companies' sale is mainly a promise. Therefore, what makes customers pay a premium is the trust they have to the company that it will come to their rescue in time of hardship and unexpected damage or crisis. This makes how vivid is trusts impact on retention. Jobber (2007, 903), says customer retention relies heavily on building

trust. This is the case especially with service companies due to the difficulty of comparing and assessing services before buying. According to Isomutu (2014), feeling is an important resource of the customer relationship and the stronger the mutual feeling is the more durable the relationship will be. These researches show how significant trust is in determining customer satisfaction. But the researcher does not find a quantitative endeavor to quantify the magnitude of trust on retention.

The research has found out that the impact of trust on retention is so high. In the crosstab analysis, it was found that from a total of 79 respondents (61.2%) who have trust in the company, only 11.4% consider leaving the company while 88.6% want to stay. From the 50 respondents (38.8%) who say they lack trust on the company, on the other hand, 88% do not see themselves with the company while only 12% want to stay. This much contrast is not registered in the other variables which shows how much significant trust is in keeping customers. Furthermore, the Pearson correlation value is the highest of all the variables at 0.550 (with significance level of 0.000). This is on the scale of very strong positive correlation. Besides, logistic regression result shows the OR of trust to retention is 6.7, which means a customer who has trust to NISCO is almost seven times more likely to stay with the company than a customer who has no trust to the company. This result shows that trust has the strongest impact on customer retention among other determinant variables. Further, the result shows NISCO customers are more sensitive with regard to trust in order to decide to stay or to leave the company. This gives a valuable feedback to the company to focus and work on developing customer trust in order to maximize its retention rate.

4.8.2.3. Premium

Obviously, price has a negative correlation with retention. The higher the price, the lower a customer would like to stay. But, previous research findings suggest that repeat (existing) customers focus less on price savings than new customers do (Reichheld and Sasser, 1990).

In the research, it was found out that price has a negative impact on retention. But its magnitude is not strong. In the crosstab of retention with price, price is found to be the least determining factor of retention. From those who believe the company's price is not fair, only 28% believe they will not continue with the company while a greater share (72%) are certain they will continue with the company. On the other hand, from those who believe the price is fair, still 37% of them are not certain if they would continue with the company

or not while the rest 63% believe, they will continue with the company. In the Pearson correlation, price is found to have a negative 0.096 impact on retention, which is a negligible result. But since the significance of these correlation (p-value) is found to be 0.08, which is higher than 0.05, this result is not taken into consideration. The logistic regression also found an OR of 0.94 (at p-value 0.01). This means, a customer who feels the price of the company is not fair is 0.94 likely to stay than a customer who feels the opposite. But since the OR is close to one, its impact is negligible. In general, the research has found out that premium has a negative correlation with retention, but it is not significant as compared to the previous two factors. Thus, the result confirms the less price sensitivity behavior of the existing customers as previous researches found.

4.8.2.4. Switching Barrier

Switching barrier, the costs and discomforts customers would incur if they opt to change their current insurer, is one of the research agendas of customer retention in the insurance sector. According to one research, even with relatively low levels of satisfaction, the customer continues to patronize the service provider because repurchasing is easier and more cost effective than searching for a new provider or sampling the services of an unknown provider (Curasi and Kennedy, 2002). In a qualitative research conducted on the effect of switching barriers on customer retention in the banking sector, Suryani & Chaniago (2008) conclude that switching barriers have a positive impact in keeping customers with their current banks.

In this research, it is found out that from the respondents who believe there is a strong barrier, three quarters (75%) have agreed that they would have changed their insurer if there were not inconveniences and hassles. But this seems to change in those who believe there is no significant barrier in the sector. From those who believe there is no significant barrier, only 42.9% are not certain if they would continue with NISCO. Respondents who feel there is a barrier want to continue their relation with the company while those who do not feel there is a barrier are not determined by it.

The Pearson correlation coefficient is 0.186 (at p-value of 0.10) which is a positive yet not significant correlation. This result was in line with the previous finding. But since the p-value is higher than 0.05, this result is not taken into consideration. In the logistic regression, the OR of switching barrier to retention is found 1.20, which means a customer who feels there is a barrier to switch is 1.20 times more lenient to retain its subscription to the company than a customer who does not believe there is a barrier. But again, this result

comes at a significance value of 0.06, which is slightly higher than the CI that is acceptable for this research. Therefore, this finding also proves there is no significant relation between retention and switching barrier. This is due to the prevalence of brokers and sales agents who can act on behalf of the insured, which might avoid the hassles of switching between insurers.

CHAPTER FIVE

CONCLUSIONS AND RECOMMENDATIONS

This chapter is the final part of the study, which provides conclusion of major findings, recommendation and limitation of the study.

5.2. Conclusions

In conclusion, Nyala Insurance has an attrition rate which is higher than average attrition rate of global insurance companies. The company has lost 30% of its customers in the last year and, if it does not take the necessary measure, according to this research, it might increase to at least 31.8% or higher in the next few years. This is an alarming sign for the company. From the findings of the research, it can be concluded that from the four factors, trust is the most determining factor of customer retention. The research proves that customer trust has a direct and strong relation with customer retention. A customer who have trust for the company almost seven times likely to be retained than who have no trust. Customers need to have trust in the company's brand, reputation, reliability and promises.

The second most determining factor is customer satisfaction. As the result indicates, customer satisfaction has a positive and strong relation with customer retention. The logistic regression shows a satisfied customer is three times more likely to be retained than unsatisfied customers.

The research also found that price has negative but insignificant effect on customer retention. According to the finding, a customer who feels the price of the company is not fair is 0.94 times only likely to stay than a customer who feels the opposite. This signifies that NISCO Customers react less considerably regarding price matters in order to decide whether to continue or to leave the company.

Finally, the study come across switching barrier has positive relation but again insignificant effect on customer retention. The result shows customers of NISCO less determined by switching barrier.

5.3 Recommendations

Undoubtedly, no business can exist without customers. Customer value is an asset to the organization. Hence, in order to maintain the customer, the organization needs to ensure that customer satisfaction and trust always be guaranteed.

As the result shown, customers of Nyala insurance give a high value for trustworthiness of the company and their satisfaction in order to maintain their relationship. Therefore taking into consideration with these fact Nyala insurance is expected to work on enhancing the customer satisfaction level through intensively studying of the customer demand and forwarding the quality service as they wish at the right time.

The company needs to confirm its trustworthiness by keeping its promise during claim services. The company can build the trust over its customers by giving an example of reference of huge claim settlement with in a shortest time through advertisement, and informal communications. NISCO has a motto which says your seal of protection thus, the managements and all the staffs need to show the demonstration of this motto so that the customers acknowledge it whenever they see it.

Together with other things, trustworthiness of a company, can be strengthened by its level of capital base. So ensuring an adequate and competitive capital should be worked upon by the company. Maintaining the capital is not by itself enough but together with the way how that is placed in the minds of the customers. This could be demonstrated with aspects like having different investment activities for example with having different buildings and maintaining a high standard of assets based on the requirements of the regulator. An arrangement of a reliable reinsurance partnership with the highest rated reinsurance companies is vital for winning the majority of customers especially the informed ones. This also should be well communicated to the customers in the medium that is convenient to them.

In addition to the above, the company should device a strategy in order to build a strong customer relationship, which involves in acquiring, developing and maintaining activities. All the actions of the company including its promotional activities should be based on the actual capacity and facts on the ground to create a balance between the customer's expectation and the real service experience. As a service giving company, Nyala Insurance S.C., should make an exhaustive study in order to determine the range of factors that

influence satisfaction. Customer's satisfaction and the associated factors are expected to change as time passes due to the change in the overall context. Thus, the company should make its activities on a continued basis.

In practice, all what is built over period of time might be eroded immediately if the customer is not satisfied with the claim service of the company. Claim service is the vital and main reason why a customer joins an insurance company. Thus, the service should be monitored regularly with a set of prepared standards and frameworks to ensure that it is in line with the promised one and based on customer's expectation level. A regular customer survey should be made so as to get a feedback in areas of weaknesses and to upgrade the strength. The feedback could be obtained by different mechanisms amongst which an arrangement of a customer representative group and the subsequent discussions are usually preferred in the service industry. The main part of the system is the employees that are directly or indirectly related with customers. Accordingly, the company should invest much in training and development activities having an emphasis on customer service. The other aspect that should be focused is an assessment of the overall service delivery procedure in claims and underwriting with the aim of eliminating non-value adding ones.

5.4 Limitation of the study

This study has limitation with regard to sampling method. The sample selection method used in this paper is availability-sampling method. But since the objective of the research is studying the determinant of retention, it would be more better if purposive sampling method selected to make them more representatives of those customers who left insurance company. However, this is not possible due to the fact that difficulty of finding customer who left the company to fill the questionnaire. Hence, the respondents of this research are not those who left the company, they rather are those who stay with the company. Therefore, the researcher believes some of their insights may not show the real scenario of those who leave.

The other limitation of the study is as it was conducted via cross sectional study, the changes of the customer retention determinant over a period of time couldn't be identified.

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Please encircle the number and the word which expresses your opinion towards Nyala insurance. The numbers indicate the following statement.

5. Strongly Agree 4. Agree 3. Neutral
 2. Disagree 1. Strongly Disagree

Please, circle only one option.

S/N	Dimension & Items	Rate				
Service Quality (Customer Satisfaction)						
1.	The Company has favorable terms and conditions to me.	5	4	3	2	1
2.	The Company has branches and operating hours that are convenient to me.	5	4	3	2	1
3.	The Company workers are well informed, ethical and supportive to customers.	5	4	3	2	1
4.	The Company gives prompt customer services and attends to customers' needs/problems.	5	4	3	2	1
5.	Overall, are you satisfied with the service of the Company?	Yes		No		
Trust						
6.	The Company is dependable and consistent in solving customers' complaints.	5	4	3	2	1
7.	The Company is successful in the insurance industry of the country.	5	4	3	2	1
8.	The Company has a strong brand image and reputation in the country.	5	4	3	2	1
9.	The Company is truthful in keeping its promises and is capable for the full settlement of insurance claim	5	4	3	2	1
10.	Overall, do you have trust in the Insurance company?	Yes		No		
Premium Price						
11.	The charges I pay as insurance premium is affordable and reasonable as compared to other insurance companies.	5	4	3	2	1
12.	The premium I pay in this insurance company are fair and reasonable as compared to the service I get.	5	4	3	2	1
13.	I do not compare prices with others since I have a belief in the pricing mechanism of the Company.					

14.	I believe that my insurer's price is worthy as compared to its convenience and access for me.					
15.	Overall, do you believe the prices you pay are affordable and reasonable?	Yes		No		
	Switching Barrier					
16.	Once you start with a given insurer, it is difficult to change to other insurers.	5	4	3	2	1
17.	If it was easy to change insurers, I would have changed my current insurer for the inconveniences I have.	5	4	3	2	1
18.	I would like to continue with my current insurer rather than adapting new insurer	5	4	3	2	1
19.	I might have changed my insurer if I could do so without any significant hassle.	5	4	3	2	1
20.	Overall, do you believe that the switching barriers can keep (are keeping) you from changing your insurer?	Yes		No		
	Retention					
21.	Overall, do you see yourself using this company in the future?	Yes		No		

DECLARATION

I, the undersigned, declare that this thesis is my original work, prepared under the guidance of Asst. Professor Shoa Jemal. All sources of material used for the thesis have been duly acknowledged. I further confirm that the thesis has not been submitted either in part or in full to any other higher learning institutions for the purpose of earning any degree.

Name

St. Mary's University, Addis Ababa

Signature

November, 2014

ENDORSEMENT

This thesis has been submitted to St. Mary's University, School of Graduate studies for examination with my approval as a university advisor.

Shoa Jemal

Advisor

St. Mary's University, Addis Ababa

Signature

November, 2014