

## Customer Retention Strategies of SIC Life Insurance Company Limited and StarLife Assurance Company Limited in Ghana: An Exploratory Assessment

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**Abstract:** This study aimed at comparing customer orientation and customer retention strategies of two life assurance companies in Ghana namely SIC Life Insurance Company Ltd and StarLife Assurance Company Ltd. Customer retention has gained increased value among businesses and has been accepted to have brought tangible financial benefits to firms. Data were collected through interviews with the policyholders and questionnaire was administered to the management teams. The Statistical Package for Social Science (SPSS) and MS Excel were softwares used to analyse data. Specifically, the Friedman's test was used to determine differences in relevant indicators among the two companies. The findings of the study point to the fact that there were pragmatic efforts by both companies toward customer retention. The findings further indicate differences in customer retention strategies in terms of regular communication with clients and offer of bonuses. Satisfaction levels were high and the two companies retained a good number of their policyholders but they differ in terms of the number of policyholders retained annually. The findings imply deepening efforts towards regular communication with clients, building relationships with clients and ensuring policyholder satisfaction.

**Keywords:** Customer retention, Ghana, life assurance, SIC Life Insurance, StarLife Assurance

### INTRODUCTION

Insurance, in Law and Economics, is a form of risk management primarily used to hedge against the risk of a contingent loss. Insurance is defined as the equitable transfer of the risk of a loss, from one entity to another, in exchange for a premium and can be thought of as a guaranteed and known small loss to prevent a large, possible devastating loss (Mehr and Camack, 1976).

The specific use of the terms 'insurance' and 'assurance' are sometimes confused. Insurance refers to providing cover to an event that might happen (fire, theft, flood etc), while assurance is the provision of cover for an event that is certain to happen (life assurance). Life insurance or life assurance is a contract between the policy owner and the insurer, where the insurer agrees to pay a sum of money upon the occurrence of the insured individual's or individuals' death or other event, such as terminal illness or critical illness. In return, the policy owner agrees to pay a stipulated amount called a premium at regular intervals or in lump sums. From a generic viewpoint, life insurance policies can be classified as either term insurance or cash-value life insurance. Term insurance provides temporal protection, while cash-value life

insurance has a savings component and builds cash values. Numerous variations and combinations of these two types of life insurance are available today (Rejda, 2008).

According to Kotler (2003), in recent times more companies are recognizing the importance of satisfying and retaining customers because they constitute the company's relationship capital. Customer retention invariably starts with the attraction of the customer through the retention process. Companies seeking to expand their profits and sales must spend considerable time and resources searching for new customers for mutual relationship (Kotler and Keller, 2008). Unfortunately, most marketing theory and practice are centered on the art of attracting new customers rather than on retaining and cultivation of existing ones (Kotler and Keller, 2008).

The tangible advantages of retaining customers were brought into core prominence by Dawkins and Reichheld (1990), claiming that a 5% increase in retention rate led to an increase in the net present value of customers of between 25% and 83% in a wide range of industries, e.g., credit card, insurance brokerage, motor servicing, building management etc. Despite its potential benefits, customer retention did not obtain

much attention in strategic planning processes (Ahmed and Buttle, 2001).

It has been accepted that the practice of customer retention has brought tangible financial benefits to firms so much that all classes of customers should be equally and appropriately treated. However, very few organizations have measured the economic values of their customer retention strategies (Payne and Frow, 1999).

The strategic existence of every life insurance company like any other company is dependent on the life time value of its customers and its customer base. In recent times, almost all the life insurance companies are deepening their efforts at market penetration. In a bid to widen their customer base, life insurance companies are also focusing on retaining their existing customers but this has achieved little success as most of the customers defect. Some drop within the first year of acquisition. Although insurers are knowledgeable in all the tangible benefits in retaining customers, their retention practices do not measure to its economic importance.

Against the background of the forgone propositions, the aim of the study was to compare customer orientation and customer retention strategies of SIC Life Insurance Company Limited with those of Star Life Assurance Company Limited.

## **LITERATURE REVIEW**

To succeed in today's fiercely competitive market, companies have to move from selling philosophy to market philosophy (Kotler *et al.*, 1996). Kotler (2003) argues that to succeed or simply to survive as a company, there is the need for a renewed philosophy of customer-centeredness, which focuses on customer development and designing its marketing strategies on delivering superior value to its target customers. As a result, companies are challenged not to produce only satisfied customers because several competitors can also do so. Rather, they should delight their customers and make them loyal. Highly satisfied customers become loyal, talk favourably about the company and its products, pay less attention to competing brands, are less sensitive to price and offer product ideas to the company. It also costs less to serve existing customers than new customers because transactions are routine.

In recent times, more companies are recognizing the importance of satisfying and retaining customers because they constitute the company's relationship capital. The capital value of a customer is most manifested at company restructuring or during the sale of the company. The acquiring company would have to pay not only for the plant and the equipment and the brand name but also for the delivered customer base (Kotler, 2003). According to Bitner *et al.* (1990) at the end of the 20<sup>th</sup> century, the most successful companies were the ones that 'made it easy for customers to do business with them'. In the 21<sup>st</sup> century, the most profitable businesses will be the ones that have

discovered how to 'make it easy for customers to get things done'. Instead of designing business strategies from the inside-out, strategies should be designed from the outside-in.

Customer retention invariably starts with the attraction of the customer through the retention process. Companies seeking to expand their sales and profits must spend considerable time and resources searching for new customers. In doing this, companies practically engage in lead generation and advertisements in the media to reach new prospects. Unfortunately, most marketing theories and practices are centred on the art of attracting new customers rather than on retaining and cultivation of existing ones (Kotler and Keller, 2008). Focusing on activities targeted at retention and cultivation of the existing customers would be a wise business decision and must be done in the context of overall customer experience (Reinartz *et al.*, 2004).

Companies would have to spend a good budget to monitor and measure customer satisfaction because the key to customer retention is customer satisfaction (Kotler, 2003). Kotler *et al.* (1996) argue that although current marketing focuses on formulating marketing mixes that will create sales and new customers, the firm's first line of defence lies in customer retention. The best approach to customer retention is to deliver high customer satisfaction that results in strong customer loyalty.

The true meaning of customer retention is the subject of controversy. Does it mean repurchase? Intent to repurchase? Referral? Or does it simply mean a feeling of loyalty to the brand? The easiest way to approach retention is from the negative i.e., retention means that the customer has not defected. In other words, that the customer remains active (Stevens, 2006). Also Ahmed and Buttle (2001) intimate that customer retention could be seen as the mirror image of customer defection, where a higher retention rate has the same significance as the low defection rate. It has been generally argued by many actors in the discipline that, defining customer retention can be difficult and problematic, if it is not defined precisely in a way appropriate to the firm's business (Ahmed and Buttle, 2001). Some marketers take an active-oriented and essentially conservative stance, insisting that the true meaning of retention is repurchase and the logic to this argument is that, since repurchase is the source of conversion to customer profitability, it presents an attractive metrics for assessing performance upon acquisition (Stevens, 2006).

Defining customer retention in terms of percentage share of the customer savings, borrowing, spends or purchase may be more useful instead of in terms of absolute numbers of customers. A bank customer may have several accounts with the same bank and may decide to close one of them. In the insurance industry, a policyholder may have several policies and may decide to cancel or replace a policy with another. When a policy is cancelled for non-payment and later renewed, the new policy is taken to mean a new customer

(Ahmed and Buttle, 2001). Ahmed and Buttle (2001) further allude that it is misleading to treat either case as a defection. Alternatively, a customer may still keep an account but transfer a substantial amount of money to another account in another bank or buy additional coverage from another insurance company.

### METHODOLOGY

Samples for this study were drawn from the policyholders of the two companies and the management team also constituted another unit of study. Forty policyholders each from the two companies were selected by means of accidental sampling technique. In all, eighty policyholders were sampled from the two companies. The policyholders were sampled for the study as and when they turned up at the insurance halls for business. In collecting data from the sampled policyholders, they were interviewed at the insurance halls of the companies with the use of interview guides.

A questionnaire was used to collect data from the management teams of the two companies. Statistical Package for Social Sciences (SPSS) and MS Excel were used for data capture and organization. Frequency distributions, cross-tabulations and categorical charts are statistical tools used for the analysis. This helped to put the data into categories of similar kinds for meaningful comparison and deductions. Friedman’s test was used to determine the differences in the indicators of customer orientation and policyholder retention strategies among the companies.

### RESULTS AND DISCUSSION

The two companies attach some importance to their respective policyholders and these are presented in Table 1. Table 1 shows the responses on the importance the companies attach to their respective policyholders. It shows clearly that both companies uphold the importance of their respective policyholders. This is depicted by the high percentage of policyholders who indicated that the two companies consider their policyholders important. The result further indicates that StarLife Assurance attaches a little more importance to its policyholders than the importance SIC Life attaches to its policyholders.

To adequately measure the degree of the importance the companies attached to policyholders, seven indicator variables were used where the respondents were asked to rate them. These measures are:

- $I_1$  = My suggestions are taken and implemented
- $I_2$  = I receive prompt customer service
- $I_3$  = Fast claim process
- $I_4$  = Transactions are clear and understandable

Table 1: Importance attached to policyholders

		Yes	No	Total
SIC Life	Count	31	8	39
	% Within company	79.5%	20.5%	100.0%
Star Life	Count	36	4	40
	% Within company	90.0%	10.0%	100.0%
Total	Count	67	12	79
	% Within both companies	84.8%	15.2%	100.0%

Table 2: Friedman’s test for customer orientation indicators among the companies

N	54
Chi-Square	102.65
Degree of freedom	6
Asymptotic Sig.	0.00

Table 3: Differences in customer orientation among the companies

Company		Mean rank
SIC Life	$I_1$	3.78
	$I_2$	2.83
	$I_3$	3.94
	$I_4$	2.78
	$I_5$	4.31
	$I_6$	5.06
	$I_7$	5.30
Star Life	$I_1$	3.69
	$I_2$	2.28
	$I_3$	3.69
	$I_4$	2.81
	$I_5$	5.02
	$I_6$	5.52
	$I_7$	5.00

$I_5$  = I receive business souvenir annually

$I_6$  = Periodic statement of account

$I_7$  = Policy renewal reminder

The study also found out if ratings for the seven variables above differ among the companies using Friedman’s test. The result of the test is presented in Table 2. The asymptotic significant value of  $p = 0.00$ , shows that statistically significant differences exist among the ratings given for the seven variables.

Table 3 reveals that differences exist in the companies’ customer orientation and the differences are in respect of the following responses  $I_1, I_3, I_5, I_6$  and  $I_7$  with mean rank of at least 4. It therefore indicates that the two companies’ orientations are different. The two companies’ orientations on the issues of acceptance and implementation policyholder suggestions, fast claims processes, access to annual business souvenir, offer of periodic statement of accounts and reminders concerning policies renewals are different. However, with respect to  $I_2, I_4$ , no differences exist among the two companies. This implies that, the two companies have the same orientation of prompt customer service as well as clarity and understandability of transactions.

To measure and compare policyholder retention strategies of the two companies, five indicator variables were used where the respondents were asked to rate the variables. These measures are:

- $S_1$  = Regular communication with client
- $S_2$  = Services are delivered professionally

Table 4: Friedman’s test for policyholder retention strategies

SIC Life	N	35
	Chi-Square	42.61
	Df	4
	Asymptotic sig	0.00
Star Life	N	33
	Chi-Square	71.36
	Df	4
	Asymptotic sig	0.00

Table 5: Differences in policyholder retention strategies among the companies

Company		Mean rank
SIC Life	$S_1$	3.21
	$S_2$	2.23
	$S_3$	2.80
	$S_4$	2.66
	$S_5$	4.10
Star Life	$S_1$	3.35
	$S_2$	2.27
	$S_3$	2.41
	$S_4$	2.41
	$S_5$	4.56

$S_3$  = The company values the policyholder and relations

$S_4$  = Attentive to dissatisfied customers

$S_5$  = Offer exciting bonuses and discount

The ratings for the five variables above are presented in Table 4 by performing the Friedman’s test. Table 4 shows the Friedman’s test for the indicators for policyholder retention strategies for the two companies. The test shows that differences exist among the companies in terms of the application of policyholder retention strategies, since the p-value or the asymptotic significant value for the separate tests are <0.05.

Differences in the application of the policyholder retention strategies among the two companies appear largely to be with respect to regular communication with clients and the offer of exciting bonuses and discounts (Table 5). While respondents were not very emphatic on the application of regular communication with the policyholder, they clearly indicated that exciting bonuses and discounts are not offered. In this case, the situation of the two companies was almost the same.

Customer satisfaction is the state of mind that customers have about a customer when their expectations have been met over the lifetime of the product or service. The achievement of customer satisfaction leads to customer loyalty and product repurchase.

Figure 1 reveals that the level of satisfaction among policyholders of the two companies was high. Comparatively, the proportion of SIC Life policyholders who were extremely satisfied were more than the proportion of StarLife policyholders who were extremely satisfied. However, the figure further shows that policyholders of StarLife who were satisfied were more than SIC Life policyholders who were satisfied. In terms of dissatisfaction, a higher percentage of SIC

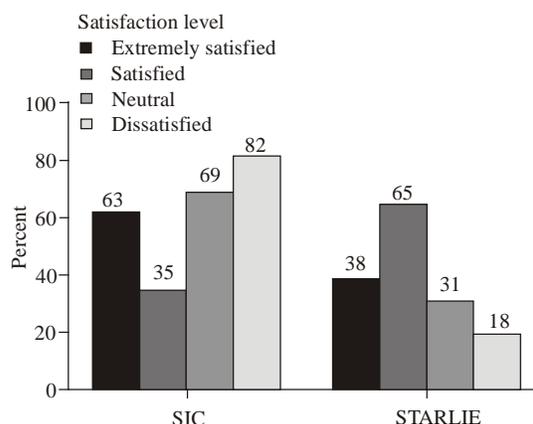


Fig. 1: Policyholder satisfaction level with the companies

Life policyholders were dissatisfied than the percentage of StarLife policyholders were dissatisfied.

Management’s perception of the level of satisfaction among policyholders does not indicate the actual satisfaction level of the policyholders. The companies assessed perceived the level of satisfaction among its respective policyholders by ratings on the Likert scale (very satisfied, satisfied and not satisfied). From the findings, StarLife rated the perceived level of satisfaction of their policyholders as satisfied, while SIC Life on the other hand rated the level of perceived satisfaction of the policyholders as very satisfied. This somewhat suggested that both companies are perceiving that their respective policyholders are satisfied with their respective companies.

Retention rates refer to the number of customers lost over a period of time. It is usually calculated by the percentage of lost customers over existing customers over a period of time, e.g., quarterly or annually. Using the average annual policyholder acquisition of about 50,000 for StarLife, the average annual policyholder retention over the span of three years was 45,000 policyholders. This represented 90% retention rate with 10% surrender or defection rate. SIC Life annual policyholder acquisition was in the range of 30,000-39,999. The midpoint was 35,000 policyholders. Using the midpoint for the analysis, SIC Life average annual policyholder retention over the span of three years was 30,000 policyholders with the surrender figure below 5,000 surrenders in a year. This represents the retention and the surrender rates of 85.7 and 14.3% respectively.

Occasionally, the companies experience some form of policy surrender. Reasons bearing on the surrender are, over-pricing, under-pricing, maturity/pension product features and customer dissatisfaction. Regarding management assessment of the frequency of these reasons on the scales of very frequent, frequent, not frequent and not at all, the findings indicate that StarLife did not indicate the frequency of all the reasons as far as policy surrender was concerned in the

company but rather cited financial, personal travelling out of the country, pension and payment of fees as other reasons why policyholders surrender their policies.

On the other hand, SIC Life indicated the frequencies of the stated reasons including infrequent over-pricing, no under-pricing, very frequent maturity/pension and infrequent product features and customer dissatisfaction. Also SIC Life cited job loss and travelling out of the country as other reasons policyholders state at surrender. All the policyholder retention strategies were accepted as applicable to the two companies.

Management assessment of the effectiveness of the strategic options showed that the companies applied the strategies effectively. However, the findings further indicate that the differences with respect to the application of the strategic options among the companies relate to the companies' orientations of the application of communication strategy and on how the companies deployed bonuses and discounts as policyholder retention strategies. Retention rates of policyholders among the two companies were quite good. StarLife retained up to 90% of its policyholders in a year within the span of three years and SIC Life retained 85.7% of its policyholders annually also within the same three years span. On the whole, satisfaction among policyholders of the two companies was high but policyholders of StarLife Assurance appear to be more satisfied than their counterparts at SIC Life. Management's assessment of the perceived level of satisfaction among the policyholders showed that policyholders of the two companies were satisfied with their respective companies.

### **CONCLUSION**

Based on the management assessment and the management attitude towards the policyholders, it can be concluded that the two companies are customer centred. However, their customer centeredness varies and these differences are in respect of the companies' orientations on issues such as acceptance and implementation of policyholder suggestions, fast claims processes, access to annual business souvenir, offer of periodic statement of accounts and reminders concerning policy renewals.

Retention strategies applied by the two companies are somewhat similar. However, the two companies are different in terms of their orientation of the application of the strategic options, communication strategy and deployment of bonuses and discounts.

Furthermore, the policyholders of the two companies are moderately satisfied with their respective companies. However, further details from the findings suggest that policyholders of StarLife are more satisfied than the policyholders of SIC Life.

### **RECOMMENDATIONS**

The companies are required to deepen their efforts in ensuring policyholder satisfaction as this can lead to long-term policyholder loyalty. The companies should tactically offer warm reception to clients in all touch points and be transparent and prompt in all claims settlements. This can ensure policyholder satisfaction.

The companies need to offer a platform for their employees to learn how to relate with the policyholders as they constitute the front lines of the companies. The companies should create a seamless channel for communication with the policyholders and other stakeholders and should also ensure the release of periodic statement of accounts to their policyholders. These would support customer retention strategies.

On regular bases, the companies should adore their respective policyholders by giving them souvenir and discounts. Furthermore, they should educate their respective policyholders on the latest developments as regard the policies and other important issues that concern the policyholders.

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