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Article

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MARKETING | RESEARCH ARTICLE

Investigating the impact of *Shari'ah* perception on customer switching intentions: A study of *Takāful* and conventional insurance

Hassan Jamil^{1*} and Waheed Akhter¹

Abstract: The core objective of this paper is to examine the relationship between the Shari'ah perceptions and the customers' switching intentions in both Takāful and Conventional Insurance. In today's world, most of the businesses are focusing on customer retention rather than the customer acquisition. However, our current knowledge of insurance systems is unable to address the crucial issues of target achieving marketing tactics. Takāful is firming its roots in Muslim communities across the globe. As per customer satisfaction been considered as an important factor of customer switching, we have gone further and investigated the mediating role of customer satisfaction to customer switching intentions. The sample size of 400 customers of major life Insurance and family Takāful companies was taken using convenient sampling method. Mediation analysis was performed to test the mediating role of customer satisfaction in Family Takāful and Life Insurance. The impact of Shari'ah perceptions in life insurance and family Takāful was found significant. Furthermore, customer switching intentions were partially mediated by customer satisfaction. This study has some important implications for the insurance/Takāful practitioners and policymakers. It urges the Insurance/Takāful operators to maintain and develop strong long-term relationships with the customers to reduce their switching intentions. For Takāful practitioners, there is a need to develop clear understanding of Takāful in the minds of customers as well as general public.

ABOUT THE AUTHORS

Hassan Jamil is a research scholar at Department of Management Sciences, COMSATS Institute of Information Technology, Lahore, Pakistan and aims to pursue his PhD. His areas of interest are related to Customer Switching Intentions, Customer Satisfaction, Customer Loyalty and Relationship Marketing in Islamic financial industry.

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PUBLIC INTEREST STATEMENT

Takāful is Islamic way of doing insurance. It is based on injunctions of *Shari'ah*, i.e. Islamic Law. Most of the Muslims having high *Shari'ah* perception attempt to avoid conventional insurance as it is prohibited by *Shari'ah*. This study aims to examine the relationship between the *Shari'ah* perceptions and the customers' switching intentions in both *Takāful* and Conventional Insurance. Our results indicate that the impact of *Shari'ah* perceptions in life insurance and family *Takāful* is significant. Furthermore, Customer switching intentions are partially mediated by customer satisfaction. It is essential for Insurance/*Takāful* operators to maintain and develop strong long-term relationships with the customers. For *Takāful* practitioners, there is a need to develop clear understanding about the halal and haram among the customers.

Subjects: Services Marketing; Marketing Research; Relationship Marketing

Keywords: switching intentions; *Shari'ah* perceptions; customer satisfaction; family *Takāful*; life insurance

1. Introduction

The business-to-business and customer-to-business relation are currently deemed as a matter of hot debate (Morgan & Hunt, 1994). The main construct is that a higher level of customer satisfaction with the services being offered sees reduced switching behaviors and higher level of trust (Anderson & Sullivan, 1993). Satisfaction with a product is generally described as a state resulting from uncertain expectations and a customer's prior feelings about the consumption experience (Oliver, 1981). The impact of relationship investment and service quality on the customer satisfaction may vary in the presence of several switching barriers (Chen & Wang, 2009).

According to Gwinner, Gremler, and Bitner (1998), if an insurance customer switches or quits a current service provider then he/she will be penalized and would suffer a higher switching costs because by the time he/she would become old and will have to start policy from the initial level. The risk of switching barriers becomes higher once the contract is signed and the premium is paid. Therefore, the switching barriers are therefore one important parameter to monitor the level of satisfaction of the insurance customers. Furthermore, effective customer response mediates the characteristics of satisfaction (Oliver, 1993). Relationship marketing is another important segment based on social exchange theory and the satisfied customers intend to buy more insurance products and services from the same insurance provider.

Many Islamic scholars think that conventional Insurance is against the principles of Islam as it involves *Gharar* (uncertainty), *Maisir* (gambling), and *Riba* (Usury), however, *Takāful* is an agreement among persons who jointly agree to indemnify their losses and out of the fund they donate collectively. *Takāful* involves concepts of *Mudarabah*, *Tabarru* (to contribute for others benefits) and shared losses with a prime objective of minimizing the uncertainty (Khan, 2005).

Takāful is an Islamic alternative to a conventional insurance and is also known as Islamic insurance. The word *Takāful* is derived from an Arabic word "*Kafī*" which means to guarantee or responsibility (Billah, 2007). *Takāful* Act (1984) of Malaysia defines *Takāful* as "a scheme based on mutual assistance, which provides for mutual financial aid and assistance to the participants in case of need whereby the participants mutually agree to contribute for the purpose."

So that, it is the financial transaction which is made on the basis of mutual cooperation to minimize and share their unexpected future risks.

Takāful industry is stemming its roots in a modern economy quite firmly with a consistent growth thus serving as a major Islamic alternative to conventional insurance. *Takāful* system is unique in a sense that it does not shelter the losses of the policyholders while providing financial security in case of any damage or loss to the policyholders (Billah, 2007). The *Takāful* industry is growing swiftly in recent years, especially in the Muslim populated areas expanding from west to Africa and more importantly to Europe and America as well (AbdulRahman, 2009). The services industry regards the *Shari'ah* perception as an important factor which can influence the level of the customer satisfaction for Islamic products (Altwijry & Abduh, 2013).

While the world is facing huge financial policy changes, a relative sluggish growth of insurance industry has been seen in Pakistan. The country is therefore on its move to gradually increase the insurance penetration (Malik, 2011). While after the insurance reforms of 1990, the insurance industry has seen firm developments, however the actual factor of this development is the implementation of the insurance ordinance 2000.

2. Literature review

Many of the business organizations have realized the need of starting loyalty program to increase their customer's satisfaction and to prevent their customers from defecting to their competitors however, the problematic situation is that these loyalty programs are not enhancing loyalty (Zakaria et al., 2014). Oliver (1980) concludes that satisfaction influence the attitudinal change and repurchase intention. Furthermore, he investigated the effect of disconfirmation and finds that it influences the post exposure criteria. As insurance is a human enterprise, so it is important for insurance providers to provide better service quality and maintain high-quality customer relationships (Lee, Tsao, & Chang, 2015). Oliver and DeSarbo (1988) concluded that expectancy, performance, disconfirmation, and market equities have a significant impact on customer satisfaction.

The influence of service quality, customer's perceptions, and behavioral intentions and finds that perceived value is a significant factor of customer satisfaction which is a significant predictor of switching intentions and customer satisfaction is an important intangible asset for any firm which can generate high profits (Peng, Lai, Chen, & Wei, 2015; Ryu, Lee, & Gon Kim, 2012). Customer loyalty cannot be increased by numerous service providers due to products of different nature or customer apathy however satisfaction is one of the easiest and possible goal for which they struggle, therefore satisfaction remains a worthy activity between consumer marketing community (Oliver, 1999).

2.1. Relationship between Shari'ah perceptions and customer satisfaction

The role of *Shari'ah* compliance is an important factor in *Takāful* industry affecting customer satisfaction (Janjua & Akmal, 2014). In this regard, the customer perceptions add another deciding factor in choosing the Islamic financial products (Othman & Owen, 2001). The customers thus establish relations with Islamic services industry knowing the fact that the products are fully supervised by the *Shari'ah* scholars (Amin, Isa, & Fontaine, 2013). According to a report, the Muslim respondents in Singapore who were aware of *Takāful* products but have conservative perceptions when asked about whether it is sinful to buy insurance products responded with the similarity conceptions while the respondents with more liberal perceptions were more inclined towards *Takāful* (Maysami & Williams, 2006).

The hypothesis from the published research reports follows as;

H1A: *Shari'ah* Perception is positively related to customer satisfaction in *Takāful*.

H1B: *Shari'ah* Perception is negatively related to customer satisfaction in Conventional Insurance.

2.2. Customer satisfaction as mediating variable to switching intentions

Baron and Kenny (1986) describe the mediating variable as it explains the relationship between the antecedents and the results. Antón, Camarero, and Carrero (2007) argue that in the loyalty literature, satisfaction is usually treated as a mediator. Oliver and Swan (1989a) demonstrate that in greater percipient involvement of satisfaction with the sales agent, fairness dimension mediates the impact of inputs and outcomes on satisfaction. Oliver and Swan (1989b) further investigates that product satisfaction was exposed to be a function of product complaining, disconfirmation, and satisfaction with the merchant. The impact of customer satisfaction on the customer intentions is dependent on the customer's contributions. This eventually leads to greater future customer purchase from the same service provider thus limiting the probability of switching trends (Eisingerich, Merlo, Heide, & Tracey, 2016). Therefore, the ability to retain the customers is significant in marketing and a key to successful performance (Ennew, Binks, & Chiplin, 2015).

Nowadays due to emergence of private insurance markets, the life assurance companies dealing in immaterial items in an attempt to achieve customer satisfaction are trying to execute customer behavior programs (Gupta & Sharma, 2015). According to Deng, Lu, Wei, and Zhang (2010), the customer satisfaction mediates between the service quality and customer loyalty and further enhances customer loyalty and affects switching intentions (Eggert & Ulaga, 2002).

The literature leads us to conclude the following hypothesis,

H2A: Customer Satisfaction acts as a mediator between Shari'ah Perception and their switching intentions in conventional insurance.

H2B: Customer Satisfaction acts as a mediator between Shari'ah Perception and their switching intentions in Takāful

3. Research methodology

3.1. Data collection and sample

Data were collected from the customers of all the major life insurance (State-life, EFU, IGI, Adam Jee, and New Jubilee) and family *Takāful* companies of Pakistan (Pak-Qatar, Daud Family *Takāful*).

Pakistan is the second largest Muslim country in the world having 97% of the Muslim majority population. The data were collected from Lahore which is the capital city of Punjab Pakistan. This city was selected because of high literacy rate and high population. Most of people of this city practices insurance and *Takāful* policies and already have some knowledge about *Takāful* and conventional insurance.

It was very difficult to find life insurance customers directly in to the market because insurance customers rarely visit their insurance/*Takāful* offices. The offices of Life Insurance and Family *Takāful* companies were visited and the questionnaires were distributed among day-to-day customers who visited their offices. In this regard, convenient sampling technique was an appropriate technique. The questionnaires were distributed among the customers of the listed companies. A total of 430 out of 500 surveys were returned, out of which 400 responses were taken valid for both conventional insurance and family *Takāful* customers.

3.2. Measures

For the present study, the measurement scales and indicators adopted were validated in prior research in the financial services contexts. The idea of *Shari'ah* perception variable as an important indicator of customer satisfaction in *Takāful* was taken from the studies of (Janjua & Akmal, 2014; Maysami & Williams, 2006; Othman & Owen, 2001). Additional items were added to the scale developed by Maysami and Williams (2006) which are;

Item 1. "I give high value to *Shari'ah*, there is no need of *Shari'ah* to know about halal or haram activities in insurance/*Takāful* transactions (Reverse coded),

Item 2. *Shari'ah* does not mean anything to me in insurance/*Takāful* transactions (Reverse coded)"

The respondents were asked to indicate their agreement or disagreement on five-point Likert scale from 1 to indicate "strongly disagree" and 5 to indicate "strongly agree."

Overall customer satisfaction and switching intentions were measured according to the studies by Levesque and McDougall (1996) and Ping (1995), respectively.

4. Data analysis and results

Mediation analysis has been used to test the role of *Shari'ah* perceptions on customer switching intention. The mediation analysis was done by using bootstrap technique developed by Hayes (2013) process plugin in IBM SPSS 19 which is very useful for small data-sets.

4.1. Confirmatory factor analysis

Table 1 of Fit Indices Model illustrates the Goodness of Fit Chi-Square and other values to determine that weather the chosen model has been an appropriate fit for reliability and validity check or not. Goodness of Fit Index (GFI) should be greater than 0.95, Adjusted Goodness of Fit should be greater

Table 1. Fit indices for CFA model

Index of fit	χ^2 (df)	p	GFI	AGFI	CFI	RMSEA
Value	118.231	0.003	0.931	0.805	0.904	0.038

than 0.8, CFI should be >0.95, Root Mean Square Error of Approximation should be <0.5. Thus, the results value of our measurement model being GFI = 0.951, AGFI = 0.805, CFI = 0.944, RMSEA = 0.38 being in normal range of acceptance proves that our model is fit to check the reliability and validity of scale being used providing a green signal to proceed.

The measurement model has drawn to carry out the confirmatory factor analysis. Table 2 illustrates the CFA Model. In order to determine the convergent reliability and discriminant validity of data, this model and its fit indices have been illustrated. In order to check the reliability, there are three major steps as being illustrated by Fornell and Larcker (1981), these involve the factor loading constructs value of CFI Model being greater than 0.7, the AVE values should be greater than 0.5 and the Composite Reliability (CR) value should be greater than 0.5. Thus, the results shown in Table 2 illustrates that the majority values of factor loading are greater than 0.7 and significant at 0.001. While the CR and AVE values are all greater than 0.8 and 0.5. Thus, this result determines our scale convergent being reliable and proves the discriminant validity, which means that the items showing variances are for their own variables than the other. This adds to the reliability and validity factor of the study and relationship of the variables involved.

4.2. Model fit

Table 3 shows the fit indices of SEM. The fit indices determine the fitness between the recommended and the existence variance matrix. The first value proposed by the index of fit chi-square (df) = 18.231 indicates the fitness of model being used. Moreover, the GFI determines the variance in the model which is 0.802 being quite fair, AGFI value being 0.635 shows quite a good fit, the NFI value indicates the difference between two models and 0.901 value is good, the RMR value indicating the difference between estimated variance and covariance from observed value being small as 0.041 is better, CFI comparative fit index value 0.904 is considered good. Thus, the results determine that the data fit accordingly with the model.

4.3. Herman's one-factor test

We used Herman's one factor test to analyze whether the data suffers from common method biased issue. Here, we have three independent variables, one mediator, and one dependent variable. In

Table 2. CFA model

Items	Factor loadings	AVE	CR
Shari'ah perception		0.501	0.826
SP1	0.506		
SP2	0.712		
SP3	0.654		
SP4	0.754		
Customer satisfaction		0.612	0.814
CS1	0.565		
CS2	0.751		
CS3	0.702		
Switching intentions		0.586	0.801
SI1	0.618		
SI2	0.697		
SI3	0.758		

Table 3. Index of fit of the model

Index of fit	χ^2 (df)	p	GFI	AGFI	NFI	CFI	RMR
Value	18.231	0.003	0.802	0.635	0.901	0.904	0.038

Table 4 we can see that the maximum variance explained by single factor ~21.256% in life insurance and ~30.591% in family *Takāful*. So, approximately 21% of variance is explained by a single factor in life insurance and in family *Takāful* is 30.59% that are less than the maximum limit of 50%. So, we conclude that this data-set does not suffer from common factor biased issue.

4.4. Testing of the measurement model

4.5. Reliability tests

Table 5 indicates the reliability analysis using Cronbach's alpha coefficients. This reliability corresponds to reputation and eminence of the used scales. The values indicate that scales are properly premeditated. Reliability analysis for the instruments included in current study shows that scales used in this study are highly reliable. This is because of the fact that all the constructs and alpha values fulfilled the criteria of the minimum acceptance level of alpha score which was 0.70 as recommended by Cronbach (1951).

4.6. Test of multi-collinearity

The two major methods that are commonly used to test the multi-collinearity among the variables are tolerance test and the variance inflation factor (VIF) (Kleinbaum, Kupper, Muller, & Nizam, 1998). The multi-collinearity results are presented in Table 6. It can be observed that none of the Tolerance levels are less than or equal to 0.01. Furthermore, all the VIF values are well below 10. Hence, we conclude that the selected variables in this study do not indicate any multicollinearity problem.

Table 4. Herman's one-factor test

Life insurance			Family <i>Takāful</i>		
Total	% of variance	Cumulative (%)	Total	% of variance	Cumulative (%)
11.938	21.256	21.256	3.059	30.591	30.591

Table 5. Overall reliability constructs

Variables	No. of items	Life insurance	Family <i>Takāful</i>
		α coefficient	α coefficient
Shari'ah perception	4	0.745	0.706
Overall satisfaction	3	0.848	0.854
Switching intentions	3	0.816	0.815

Table 6. Test of multi-collinearity

	Conventional insurance		Family <i>Takāful</i>	
	Tolerance	VIF	Tolerance	VIF
Shari'ah perception	1	1	0.452	2.156
Customer satisfaction	1	1	0.354	2.654
Switching intentions	0.991	1	0.365	2.845

Table 7. Correlation and descriptive statistics for family *Takāful* and life insurance

N = 200	Mean	SD	1	2	3
<i>Family Takāful</i>					
1) Overall satisfaction	3.878	0.771	1		
2) <i>Shari'ah</i> perception	4.415	0.680	0.213**	1	
3) Switching intention	2.587	0.406	-0.391**	-0.040*	1
<i>Life insurance</i>					
1) Overall satisfaction	3.525	0.580	1		
2) <i>Shari'ah</i> perception	3.714	0.811	0.086*	1	
3) Switching intention	2.686	0.781	-0.128**	-0.303**	1

* $p < 0.1$

** $p < 0.05$

*** $p < 0.0$.

4.7. Correlation and descriptive

Table 7 is representing the descriptive statistics, and Pearson correlation among all under study variables. In *Takāful* table, the highest correlation existed between switching intention and overall satisfaction which is valued at 0.391. It reflects that overall customer satisfaction and switching intention are related to each other through a moderate standard deviation. *Shari'ah* perceptions are also correlated with overall satisfaction. The mean values are showing the response trends. In conventional insurance, the highest correlation exists between switching intentions and overall satisfaction which is 0.128 indicating the relationship in between them. Switching intentions and *Shari'ah* perceptions are negatively correlated with each other.

4.8. Testing the main effects of variables

4.8.1. The direct and indirect effects of *Shari'ah* perceptions and switching intentions for life insurance

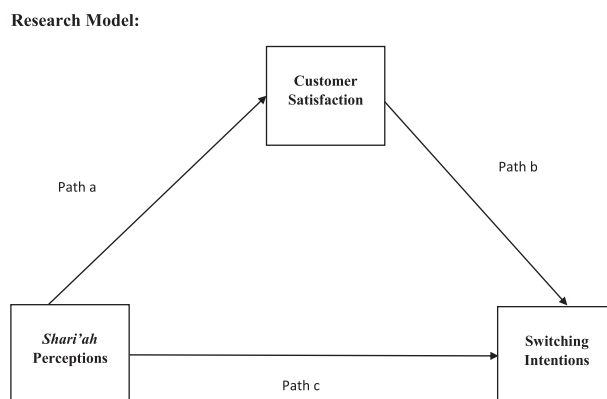
Table 8 is representing the mediation analysis taking customer satisfaction as a mediator in between the relationship of *Shari'ah* perceptions and customer switching intentions in conventional life insurance. We find that *Shari'ah* perceptions are not negatively impacting on the customer satisfaction in conventional life insurance ($b = 0.0897$, $p = 0.0000$), so we do not accept our H1B Figure 1.

Table 8. The direct and indirect effects of *Shari'ah* perceptions and customer switching intentions

	Life insurance				Family <i>Takāful</i>			
	Coeff.	SE	t	p	Coeff.	SE	t	p
a path	0.0897	0.0509	1.7631	0.000	0.1409	0.0783	1.7992	0.002
b path	-0.1134	0.0332	-3.4153	0.000	-0.1904	0.0349	-5.4516	0.000
c path	-0.1993	0.0348	-5.2727	0.040	-0.2847	0.0422	-6.7422	0.007
c' path	-0.1653	0.0345	-4.7913	0.010	-0.2176	0.0395	-5.5086	0.030

Notes: a path = independent variable to mediator; b path = mediator on dependent variable; c path = Total Effect Independent variable on dependent variable; c' path = Direct Effects independent variable on dependent variable; $df_1 = 2$, $df_2 = 198$, sample size 200, Number of Bootstrap Resamples = 5,000; Furthermore, $R^2_{Y,X}$ is the proportion of the variance in dependent variable (DV) by the independent variable (IV) which was 0.1160** in Life insurance and 0.1685** in family *Takāful*. Furthermore, $R^2_{M,X}$ is the proportion of the variance in mediator (M) explained by independent variable (IV) which was 0.0575** and 0.0452* in life insurance and family *Takāful*, respectively. $R^2_{Y,MX}$ is the proportion of the variance in dependent variable (DV) by mediator (M) and independent variable (IV) together which was 0.0919* in life insurance and 0.0716** in Family *Takāful*, respectively.

Figure 1. Model of the mediation role of customer satisfaction in the relationship between *Shari'ah* perceptions and switching intentions.



Bootstrapping results in Table 8 shows that customer satisfaction minimizes the relationship between *Shari'ah* perceptions and customer switching intentions. The values of total effect *Shari'ah* perceptions on customer switching intentions (c path, total effect = -0.2847 , $p = 0.0400$) are less than the indirect effect on customer switching intentions (c' path, indirect effect = -0.1653 , $p = 0.0100$) which is significant. Hence, we accept our H2A. The results suggest that customer satisfaction acts as a partial mediator in between the relationship of *Shari'ah* perceptions and switching intentions.

4.8.2. The direct and indirect effects of *Shari'ah* perceptions and switching intentions for family *Takāful*

Table 8 is representing the mediation analysis of the relationship of *Shari'ah* perceptions and customer switching intentions in Family *Takāful* while taking customer satisfaction as a mediator. Here, we find that *Shari'ah* perceptions positively impact the customer satisfaction in family *Takāful* ($b = 0.1409$, $p = 0.0024$). Hence, the hypothesis H1A is accepted.

Furthermore, Bootstrapping results in Table 8 shows that customer satisfaction negatively affects the relationship between *Shari'ah* perceptions and customer switching intentions. The values of total effect *Shari'ah* perceptions on customer switching intentions (c path, total effect = -0.2847 , $p = 0.007$) and the direct effects (c' path, indirect effect = -0.2176 , $p = 0.040$) are significant. So that customer satisfaction is acting as a partial mediator between the relationship of *Shari'ah* perceptions and customer switching intentions. Hence, we accept our H2B.

5. Discussion

The results of this study fits well and the research model outperform the opposite results. These results also support that there is indirect effect of *Shari'ah* perceptions on the customer's switching intentions. Furthermore, our findings support the previous studies and adds weight to the findings of Altwijry and Abduh (2013); Antón et al. (2007); Chen and Wang (2009); Cronin, Brady, and Hult (2000); Crosby and Stephens (1987); Maysami and Williams (2006) studies.

In addition, our findings suggest that *Shari'ah* perceptions are the important determinant of customer satisfaction in family *Takāful* industry. Pakistan is an Islamic state and majority of the population are Muslims in this regards we find that *Shari'ah* perceptions are not greatly impacting the customer satisfaction in conventional life insurance industry as it can be seen in family *Takāful*.

The empirical results of our findings indicate that people do not have high *Shari'ah* perceptions in conventional life insurance. However, in case of family *Takāful*, our findings show that *Shari'ah* perceptions are greatly increasing the customer satisfaction and indirectly affecting the customer switching intentions more than in conventional life insurance.

In family *Takāful*, the results reveal that *Shari'ah* perceptions are playing a vital role and has a significant influence on customer satisfaction. Most of the clients of family *Takāful* were well aware about the *Shari'ah*. The need of increasing the *Shari'ah* perceptions of family *Takāful* customers recognizes its importance in order to create more satisfied customers, high *Shari'ah* perceptions of family *Takāful* customers means that the customers preferring family *Takāful* policies because they are more *Shari'ah* complaint and interest free.

We have also seen that the *Shari'ah* perceptions are not negatively impacting the customer satisfaction level in conventional life insurance customers. This might be because of majority of the customers think that conventional life insurance is also Islamic and there is not any significant difference in between these two type of insurance/*Takāful* models.

6. Conclusion and research implications

We have seen how *Shari'ah* perceptions of the customers are significantly related to customer satisfaction in both *Takāful* and conventional insurance. Therefore, *Shari'ah* perceptions of the customers have received considerable attention. This study indicates that higher *Shari'ah* perceptions result in higher customer satisfaction in Family *Takāful*. However, the *Shari'ah* perceptions in conventional life insurance are not greatly increasing the customer satisfaction thus leading to increase customer switching intentions. In the context of service industries, in order to maintain the customer's long-term interests, insurance companies should provide the best services by initiating and maintaining lasting relationships with them. Thus, consumers can obtain the benefits of core services. From a *Takāful* managerial point of view, the *Shari'ah* perceptions among the customers are an important factor in customer satisfaction, it is important for the managers to work on how to design a good family *Takāful* policy to meet the needs of customers. Policy-makers need to focus on creating awareness about *Takāful* using various media channels as majority Muslim customers have their intentions to switch from conventional insurance to *Takāful* in near future. It is high time to capture this untapped potential market of over 160 million Muslim customers of the country.

The primary limitation of this research is its small sample size. The sample size can be increased by including the customers of other cities as well. It is not easy to approach insurance/*Takāful* customers in the market directly. This is because most of the customers do not visit their insurance/*Takāful* offices frequently; they have only direct contact with their sales agent. So, additional time required to find and locate the insurance customers and sometimes it was not possible to find any customer without the help of sales agent. A larger diversified sample with longitudinal study would be beneficial for future results. This study only analyzes the *Shari'ah* perceptions, customer satisfaction, and customer switching intentions, whereas customer input, switching costs, and switching barriers are also the prominent part of service industry. Future studies can include impact of customer input as well.

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