

MEASURING SERVICE QUALITY IN THE *TAKAFUL* INDUSTRY

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ABSTRACT

Customers' loyalty seems to be the key objective for most of the service-oriented companies, in the long run. The customers' perception on the quality of service provided by these companies plays an essential role in determining their behaviour towards the service provided. This article discusses the usage of the SERVQUAL model, which is commonly used to help service providers measure the level of their service quality; and thus give them insights on how to improve and provide a better service in the future. The SERVQUAL presents service quality as the difference between customer's expectations for a service offering and customer's perceptions of the service received, requiring them to answer a few questions about both their expectations and perceptions, based on the five gaps that seems to be the main cause for unsuccessful service deliveries.

1.0 Overview of the Islamic Insurance Industry in Malaysia

By the end of 2010, the Islamic banking industry in Malaysia is expected to constitute 20% of the overall banking and insurance market. The Government will continue to undertake strategic initiatives to strengthen the country's position as the global Islamic hub. The International Centre for Education in Islamic Finance (INCEIF) has been established to meet the increased demand for expertise in Islamic finance globally. Under the 9th Malaysia Plan (9MP), the Islamic Insurance System, known as *takaful*, is being developed to form an important part of the financial system of Malaysia, with the underlying objective of developing strong and highly capitalized *takaful* operators offering complete a range of *takaful* products and services. The local *takaful* operators are encouraged to increase their international presence. Through the formation of the Malaysian *Takaful* Association, the industry's efforts towards enhancing market conduct and strengthening customer protection would be effectively implemented (The Sunday Star, 1 April 2006).

According to Nik Ramlah Nik Mahmood, the Director of Market Policy and Development at the Securities Commission in an interview with Rob Mannix from the International Financial Law Review, (2004) Malaysia is recognized as one of the pioneers in Islamic capital markets related research and development, and in market and product innovation. The range of Islamic products and services that are available for both local and international investors, including the offshore products offered in Labuan, an island off the West Malaysian State of Sabah and Federal territory, is testimony to Malaysia's leading edge in this area. The Islamic market can also capitalize on Malaysia's existing capital market's infrastructure and framework, and also on the country's Islamic banking industry and its Islamic insurance industry for expansion. With the expected increase in the number of Islamic financial institutions, such as Islamic banks and *takaful* operators in Malaysia, demand for competitive Islamic products and services is increasing at a very fast pace.

With the 1983 Islamic Banking Act and the *Takaful* Act of 1984, the Government introduced licenses and special regulations for Shariah compliant banks and the Islamic

insurance industry. As the Malaysian authorities became comfortable with the growth and regulation of the Islamic market, the Government introduced further legislation to allow other conventional banks to offer Islamic products through their designated premises. Apparently, this aroused the interest of the existing conventional insurance operators.

On August 2006, the Malaysia International Islamic Financial Centre (MIFC) introduced the International Takaful Operator (ITO) license, registered under the 1984 *Takaful* Act, to the existing financial institutions to perform the takaful business in foreign countries. These attractive inducements proved that the Government was serious in achieving its objective of strengthening its position as a centre of origination, distribution and trading of Islamic and *halal* products, thus gaining greater global recognition in shaping the Islamic financial industry.

2.0 Literature Review

2.1 Introduction

As Islamic insurance industries grow, competition among insurance companies in offering products and services becomes more intense. In addition, customers become more sophisticated and therefore the importance of service quality becomes more pressing. Hence, the *takaful* operators in Malaysia have to think strategically by providing high quality products and services to satisfy their customers. In order for these operators to provide high quality products and services, they first need to investigate the level of customers' perceptions to their service quality. Through that information, they could then strategically adjust their service quality toward customers' satisfaction. Insurance service industries rely heavily on the quality of service and customer satisfaction as a result of intense competition and globalization. When consumers believe that certain service providers are concerned about their needs, they are more inclined to choose these service providers.

2.2 What is Service?

A service is any act or performance that one party can offer to another that is essentially intangible and does not result in the ownership of anything. Its production may or may not be tied to a physical product (Kotler, 2006). Most services cannot be counted, calculated, inventoried, tested, or be confirmed in advance of sale to assure quality; and due to the nature of intangibility; a company may find it difficult to understand how customers perceived their services and evaluate the service's quality. Services that are being applied to industries which require high labor content vary; their performance often differs from a service provider to service provider, from customer to customer and from day to day (Zeithaml, Berry and Parasuraman, 1988).

It is difficult for a customer to evaluate a service as it is normally perceived in a subjective manner. Gronroos (1988) elaborated that service is not a thing but a series of activities or processes; which are produced and consumed concurrently at least to some extent. There are four basic criteria that can be identified for most services:

- Services are intangible.
- Services are activities or a series of activities rather than things.
- Services are to some extent produced and consumed concurrently.

- The consumer participates in the production process to some extent.

Most of the manufacturing processes of goods or services are invisible. When delivering goods, only part of the service production is being experienced by the customers; and this invisible part of the production activity is considered as the most important factor to the customers.

2.3 What is Quality?

In today's business environment, the role of quality cannot be underestimated or overlooked by any company. Quality is rapidly being a major factor in a customer's choice of services. Without a doubt, quality plays an important role sustaining the long-term profitability and survival of a company (Russell and Taylor, 2000).

According to the American Society for Quality (ASQ), 'quality' is a subjective term for which a person has his or her own definition, and in terms of technical usage, 'quality' carries two meaning; the distinctiveness of a product or service that is able to satisfy the stated need of a customer and a product or service that is free from any deficiency.

2.4 The Concept of Service Quality

Service quality is one of the most researched topics in the service marketing cluster. Service quality is being consider as a company's competitive advantage and a route to corporate profitability (Newman, 2001), and according to Headley and Miller, (1993) service quality has now become a critical competitive consideration. Service quality is about meeting customer's needs and requirements and how well the service being delivered matches the customer's expectation (Al-Tamimi and Al-Amiri, 2003). For the case of the Islamic insurance industry, it is generally agreed that service quality plays an important role in sustaining the operator's position in the highly competitive industry. Service quality is defined by Groongroos (1988) as the fulfillment of customers' expectations; Zeithaml, *et al.* (1988) defined service quality as the gap between customers' expectations of service and their perception of the service experience.

Parasuraman, *et al.* (1991) have been thoroughly studying the subject of service quality since 1983, and they have formulated a service-quality model that highlights the main requirements for delivering service quality. A major outcome of their extensive study includes the conceptual framework, The Gaps Model of Service Quality and a measurement instrument (SERVQUAL) for assessing service quality.

The model identifies five gaps that cause unsuccessful service delivery. The Gaps Model emerged not only from executive perspectives on a service organization's design, marketing and delivery of services, but also incorporates the customer's perspective.

Gap 1: The discrepancy between customers' expectation and managements' perceptions' of these expectations

Gap 2: The discrepancy between managements' perceptions of customers' expectations and service quality expectations

Gap 3: The discrepancy between service quality specifications and actual service delivery

Gap 4: The discrepancy between actual service delivery and what is being communicated

to customers about it

Gap 5: The discrepancy between customers' expected services and perceived service delivered

The first four gaps are the major contributors to service quality gap that customers' may perceive. The fifth gap is the basis of a customer-oriented definition of service quality, which is the difference between customers' expectations for excellence and their perceptions of actual service delivered. This difference is the actual basis for the SERVQUAL instrument.

3.0 SERVQUAL as the Measurement Instrument

Since its introduction in 1988, SERVQUAL has attracted considerable attention and has been used to study various service industries. SERVQUAL has been widely used in many applications, mostly in explaining the customers' perception on the service quality including measuring service quality in the banking industry (Chi Cui, *et al.* 2003; Al-Tamimi and Al-Amiri, 2003 and Newman, 2001). Yavas, *et al.* (2004) further examined the relationship between service quality and the behavioral outcomes in their study on the private bank customers in Germany. SERVQUAL was also being used to measure the level of service quality in the car service industry (Bouman and van der Wiele, 1992). The model of SERVQUAL was also being used to measure the service quality and its relationship to future consumer behavior in the medical care services (Headley and Miller, 1993.)

SERVQUAL examines five dimensions that have been consistently ranked by customers to be most important for service quality, regardless of any types of service industry. The five dimensions of service are defined as follows:

1. **Reliability**
The ability to perform the promised service dependably and accurately
2. **Tangibles**
Appearance of physical facilities, equipment, personnel and communication materials
3. **Responsiveness**
Willingness to help customers and provide prompt service
4. **Assurance**
Knowledge and courtesy of employees to convey trust and confidence
5. **Empathy**
The level of caring and individualized attention the company provides for its customers

The SERVQUAL instrument rates customers' expectations and perceptions of services using 22 statements, which the authors have identified as reliable measures of their five quality dimensions as applied in a cross section of service industries.

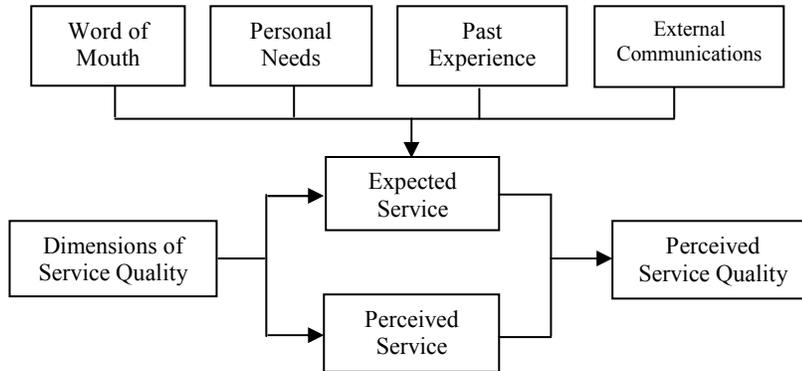


Figure 1: Customer Assessment of Service Quality (Bouman and van der Wiele, 1992)

4.0 Service Quality and Customer Satisfaction

Many companies seek to incorporate information about what customer values and what customer actually needs in order to measure performance and to further improve their current strategies. Measuring the customer satisfaction is indeed one of the most used methods in measuring the performance of a company in the services industry. Understanding the factors that affect customers' perceptions of service quality and satisfaction is necessary in order to make effective operational and future investments. The dimensions of quality for a service quality are more directly related to time and the interaction between employees and the customer. Evans and Lindsay (1996) identified that time, completeness, courtesy, consistency, accessibility and convenience, accuracy and responsiveness as the dimensions of service quality.

Motivated by the critical role of the customers' expectations in the service quality assessments, Parasuraman *et al.* (1991) have constructed an exploratory study on understanding the customers' expectation of service, in which their sample includes customers from the insurance sector. From the study, they drew some major conclusions on what customers actually expect of service:

- Customers expect service basic, whereby they expect the service provider to do what they are supposed to do fairly
- The service process is considered as the key to fulfill the customers' expectations, and the service provider are expected to be accurate and dependable
- Customers' service expectations have two levels; desired, whereby the level of service that the customers expects to receive and adequate, whereby the level of service that the customers find acceptable
- Customers wish to establish relationships with the service providers

Customer satisfaction is the result of the buyer's perception of service quality and this satisfaction further leads to customer retention, which leads to repeat purchase and increased the extent for relationship building and word of mouth cementation. Customer retention is a direct result of customer satisfaction and satisfaction is significantly influenced by the assessment of services delivered to the customers (Newman, 2001).

5.0 Conclusion

Service quality can be a powerful competitive weapon in the process of striving for service superiority. A customer's intention to re-purchase and compliment a service reacts positively with their perceptions on the service quality. The connection between perceived service quality and the future customer behavior are found to be significant.

The service provider must consistently perform above the satisfactory service level and exploit the opportunities in hand for exceeding the desired service level. Regular efforts to constantly improve service performance may well be rewarded by appropriate and subsequent improvements in customers' attitude towards the company; from the customers' preference to customer retention.

Delivering service quality is perceived as an important goal for the *takaful* operators in Malaysia. Policy holders expect their *takaful* operators to deliver the desired and satisfactory service to them. Customer satisfaction influences perceived quality and in turn affects the profitability of the operators, and for these reasons, the *takaful* operators should aim for high levels of customer satisfaction.

Note: This article is an abbreviated version. (Editor).

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