

CHAPTER 1

INTRODUCTION

1.1 Background

According to the World Health Organization and World Bank, medical expenses are responsible in making people all around the world into extreme poverty. Incomes turning into debts each year in order to be able to pay these medical costs are slowly becoming an issue for everybody around the world. A report, distributed by the WHO and the World Bank states that the poorest and most vulnerable people are regularly compelled to pick between healthcare coverage or the daily necessities in life, such as food, shelter, and education. Scientists found that in excess of 122 million individuals around the globe are compelled to live on \$3.10 every day, a benchmark for "moderate poverty" caused by medical expenditure. Since the year 2000, this number has expanded by 1.5% every year. A sum of 800 million individuals in Asia spend over 10% of their family budgets on health expenditures, included as expenses not secured by protection (www.theguardian.com retrieved at February 13 2019).

Timothy Evans, a senior director of health, nutrition and population at the World Bank Group states that only 17% of women in the poorest fifth of households have satisfactory access to maternal and child health services compared to 74% of women in the richest fifth of households. This has become an issue to not only the poor countries in the world, but it affects rather all countries at all income levels. The World Bank states that this issue is both morally and economically bankrupt and unsustainable. Both the WHO and the World Bank strongly suggests that everyone, irrespective of their conditions, to receive essential health services without risking financial hardships. As indicated by the report, Asia has the highest rate all around the world of those pushed underneath the poverty line due to medical cots. An expected 72% of those pending 25% of their family budgets on health expenses live in Asia (www.theguardian.com retrieved at February 13 2019). One of the perfect and suitable examples to illustrate the importance of having health insurance is the case of Julia Perez. Julia Perez, or better known as JuPe (her stage name) was a famous Indonesian actress

and idol, she is a well-known actress and earned a huge amount of income per month due to her success at being a singer, model, and businesswoman. However, her life turned upside down when she had been diagnosed with cervical cancer, which costs her everything she earned making her fall in debt. Heaps of assets such as luxurious houses and expensive cars have to be sold in order for her family to cover all the medical treatments she required. According to Tribun News, Julia Perez only had a total of IDR 37,000 in her wallet and even had to reduce expenses to buy food (makassar.tribunnews.com retrieved at February 11 2019). One of most burdensome payment felt by Julia Perez's mother was the cost of buying medicine. She stated that it had cost her billions of Indonesian Rupiah to pay for the bills, but still she had to add an additional of two, five, or even ten million Rupiah day to day (wartakota.tribunnews.com retrieved at February 11 2019). All of this is caused by a single and fatal mistake, she had not provided any coverage for health risks in the future. Once we have been diagnosed with harmful diseases, it will be too late for us to join health insurance.

As a major aspect of our financial arrangement, a standout amongst the most vital segment to recall insurance. Insurance is defined as an agreement made between a company and a client, in which the client pays an amount of premium in order for the company to provide coverage for specified loss, damage, illness, or death in the future. There are various different types of insurance, such as general insurance, life insurance, health insurance, travel insurance, educational insurance, and much more (www.investopedia.com retrieved at February 13 2019).

Although Insurance is not a new thing among the general population of Indonesia, a few people have not yet take the necessary precautions to insure themselves, and end up costing a generous measure of money to hospitals or obligations. Not to mention with our current health-care system, an individual can easily go bankrupt if they do not have health care coverage. Serious procedures and treatment requires an unimaginable amount of money to come out of our pockets. The sole purpose of having insurance is to transfer unnecessary risk from the clients to the insurance company so that the clients can live in a comfortable

financial existence knowing that they are insured (pocketsense.com retrieved at February 12 2019).

With the continuous increase of medical costs in each of the country in the world, and ever-growing diseases, health insurance is a must-have program for each individual. The benefit of securing health insurance is to be reassured knowing that a third party will completely provide coverage for financial expenses spent on medical emergencies. Sickness and disease itself is unpredictable in life, therefore an individual should always prepare to have coverage for these risks in the future. In order to be financially prepared against these unpredictable risks, an individual can plan on buying health insurance (www.ndtc.com retrieved at February 12 2019).

Health insurance is the most appropriate type of insurance that provides coverage for any risks that is related to medical treatment and sickness. Health insurance is defined as a type of insurance that covers all the medical and surgical expense that is claimed by the client. According to a CNBC report, although 40% of adults are insured from their workplace, they are still surprised by the high cost of medical treatment. About 20% of these insured people are still worried about the bills and they even skipped a doctor's visit due to their worries about the cost. Even though some people are covered and insured, it is no guarantee that the medical costs will be low (www.cnbc.com retrieved at February 12 2019). If those who are insured feel that the medical costs are way too expensive, how about the ones that are not insured? Heart disease and stroke are the perfect example of a disease that can cause an individual to pay medical bills that are way too expensive (www.heart.org retrieved at February 13 2019).

In our world today, there are a lot of insurance companies that provides coverage including health insurance. One of the companies that provide health insurance is AXA. AXA is a global French insurance company headquartered in Paris. It operates in the areas of life insurance, health insurance, investment, and much more. It operates in several countries such as Western Europe, North America, Asia Pacific, as well as Middle East. The AXA group consists of five business segments, which include Life & Savings, Property & Accidents,

International Insurance, Assets Management, and Other Financial Services (www.axa.co.id retrieved at February 13 2019).

Table 1.1 Comparing Data of Insurance Companies in Indonesia

	PT. AXA Indonesia	PT. Manulife Life Insurance	PT. Prudential Life Assurance
Total clients (2016)	2 million	2,3 million	2,3 million
Total clients (2017)	2,2 million	2,4 million	2,4 million
Total premium income (2016)	9,8 trillion	18,6 trillion	26,5 trillion
Total premium income (2017)	10,5 trillion	25 trillion	26,8 trillion
Total agents (2016)	12,000	9.000	261.000
Total agents (2017)	14.000	10.000	277.000
Total claims paid (2016)	9,7 trillion	6,8 trillion	10 trillion
Total claims paid (2017)	9 trillion	7 trillion	12,3 trillion

Source : (www.keuangan.kontan.co.id retrieved at February 16 2019), (www.swa.co.id retrieved at February 16 2019), (tribunnews.com retrieved at February 18 2019), (www.wartaekonomi.co.id retrieved at February 18 2019), (nasional.tempo.com retrieved at February 19 2019), (www.prudential.co.id retrieved at February 19 2019), (www.axa.co.id retrieved at February 19 2019).

AXA group has a total of 160,000 employees, operating in 62 countries, and has a total of 105 million clients worldwide, making it the number one leading insurance company around the globe. Although AXA is the number one insurance brand globally from the year 2009 until 2017 (www.axa.co.id retrieved at February 13 2019). However this statement is not true if it is applied in Indonesia. There are other competitors that surpass AXA such as Prudential and Manulife in terms of total clients, agents, and revenue (www.moneysmart.id retrieved at February 13 2019). According to WartaEkonomi, most of the companies that have an award in 2017 in terms of best financial performance company and best consumer choice company are either PT Prudential Life

Assurance, PT AIA Financial, PT Asuransi Jiwa Manulife Indonesia, and some other competitors (www.wartaekonomi.co.id retrieved at February 13 2019).

As a global leader in financial protection, AXA Group is dedicated in protecting people's financial statement as well as properties. AXA Group is committed in serving customers, both individuals and companies, at every stage of their lives by providing products and services that meet their demands, including insurance, personal protection, and future saving plans. AXA in Indonesia is part of AXA Group, one of the largest insurance and asset management companies in the world. AXA operates with a priority focus of life insurance, general insurance as well as asset management through a variety of distribution channels under PT. AXA Mandiri Financial Services, PT. AXA Financial Indonesia, PT. AXA Life Indonesia, PT. Mandiri AXA General Insurance, PT. Asuransi AXA Indonesia, and PT. AXA Asset Management Indonesia (group.axa.co.id retrieved at February 13 2019).

Unlike AXA Indonesia, both PT. Manulife Life Insurance and PT. Prudential Life Assurance does not have any distribution channel and they act as a whole company, whereas AXA Indonesia has a total of 7 distribution channels, as previously mentioned before. Therefore, in order to compare AXA and other insurance competitors in Indonesia, the writer has to first search each of the 4 criteria above from PT. AXA Financial Indonesia, PT. AXA Life Indonesia, and PT. AXA Mandiri Financial Services. The reason that the writer only picks 3 out of 7 distributive channels is that because only these 3 companies provide health and life insurance coverage. The other 4 distributive channels provide general insurance, investment management, and educational insurance. Then, the writer sums all of the total data provided in order to fulfill the total amount of data in the table of AXA Indonesia.

According to the data from table 1.1, it is shown that both PT. Manulife Life Insurance and PT. Prudential Life Assurance are still way ahead of PT. AXA Indonesia in each of the 4 criteria. The first criteria is the amount of total clients in the year 2016 and 2017, which states that most of the clients in Indonesia have already been taken by other competitors. The total amount of clients will determine how much revenue a company can generate, which will determine its

profit as well (press.com retrieved at February 19 2019). Therefore, by having more clients, a company will be able to generate more profit and thus, expanding its business territory.

The second criterion is about the total premium income that each company earned that year. It is shown that both Prudential and Manulife earned way more premium income than AXA did, explaining the fact that each of these competitors generate more revenue as they get more clients (investopedia.com retrieved at February 18 2019).

The third criterion is about the total agents each company managed to recruit. The total amount of agents indicates how fast and strong a company will be able to market their products and open a new market. Higher amount of agents will indicate a faster approaching marketing system to new clients. From Table 1.1, it is shown that Prudential has way lots of agents than other insurance companies here in Indonesia (neuvoo.ca retrieved at February 19 2019).

The fourth criterion is about the total claims paid, which indicates that the insurance company is capable of paying and reimbursing such a huge amount of claims. Reimbursement is defined as when the insurance company repays their client for their medical bills because their clients will have to pay all of the medical bills first, and file a claim in order for AXA to repay or reimburse the amount of claim the client has paid. By analyzing the data above, it is shown that although AXA Indonesia has less premium income, clients, revenue, and total agents, however the total claims paid is not too much of a difference compared to Prudential and Manulife. This shows that AXA is capable of paying such huge amounts of claims with a worse condition than other companies (understandinginsurance.com retrieved at February 19 2019).

The attractiveness of this research is to analyze the cause of why PT. AXA Indonesia is the number one insurance company in the world, but not in Indonesia. With the purpose of striving to be the best insurance company in Indonesia, it is mandatory for AXA Indonesia to fulfill the component of customer loyalty. Therefore, the writer would like to analyze the effects of Salesperson Quality and Institution Image towards Customer Loyalty through

Relationship Quality Salesperson, Relationship Quality Institution, and Commitment (www.tandfonline.com retrieved at February 19 2019).

Salesperson Quality is defined as the value an individual has to be able to sell goods or services to clients. A salesperson's quality will actually determine the rate of success done by the salesperson. A salesperson is considered to be successful when they are able to close in an amount of sales during that whole year by convincing and persuading other individuals in order to buy their products. Other beneficial compensation will be rewarded based on the salesperson report and work done on that year. If a salesperson does not perform the required service to a client, then the salesperson will be receiving negative feedbacks from the clients, which will mark them having a bad salesperson quality (www.businessdictionary.com retrieved at February 19 2019). In AXA Indonesia, each member of the salesperson or agents are usually trained in order to have the necessary knowledge to provide a positive and understanding salesperson quality, such as by providing all of the required information and details a client needs to know before they join.

Institution Image is defined as the manner in which a company, firm, or business represents themselves to the public such as customers, investors, and employees (www.businessdictionary.com retrieved at February 19 2019). Institution image will determine how good or bad the company is viewed by the public, having a positive image will boost confidence for the public and make them feel even more secure, which will increase revenue (Fombrun, Gardberg, & Sever, 2000; Fombrun & Shanley, 1990; Ou, 2007; Ou & Abratt, 2006; Ou et al., 2006). AXA Group has a positive institution image, which is indicated by the number one successful insurance company globally for 9 consecutive years (2009-2017). AXA Group has even been nominated in the Fortune Global 500 nomination award (www.axa.co.id, fortune.com retrieved at February 19 2019).

Relationship Quality Salesperson is defined as the level of satisfaction and trust each client has towards the financial salesperson (Crosby, Evans, & Cowles, 1990; Hsieh & Hiang, 2004). A high relationship quality indicates that a client relies on the financial salesperson integrity and has confidence in the salesperson's future performance due to the previous performance has been

consistently satisfactory (Crosby et al., 1990). AXA Indonesia provides a training section each time a new agent applies. This training is done with the purpose of teaching agents to build a positive relationship with their clients by increasing product knowledge.

Relationship Quality Institution is defined as the level of satisfaction and trust each client has towards the company. A high relationship quality indicates that a client can rely on the company due to their previous achievements or nominations. As stated previously that AXA Group has been nominated as the number one insurance brand globally (www.axa.co.id, fortune.com retrieved at February 19 2019). Therefore, by stating this nomination to the client, it will help to increase their level of satisfaction and trust towards AXA.

Commitment is defined as a state of being loyal and dedicated to a cause or activity (www.vocabulary.com retrieved at February 18 2019). Both customer's satisfaction and trust are the two essential keys of commitment. According to (Anderson & Srinivasan, 2003; Ganesan, 1994; Mittal et al., 1998; Moliner et al., 2007; Raval & Gronroos, 1996; Selnes, 1993), trust has a direct approach to satisfaction and according to (Macintosh & Lockshin, 1997; Morgan & Hunt, 1994), the trust of a customer to their financial salesperson has a direct effect to the commitment of the financial salesperson as well. Relationship commitment is defined as an exchange partner which believes that having a continuous relationship with the other party is so important that the committed party accepts that the relationship is worth working (Morgan & Hunt, 1994). According to an interview with Go Chin San, the Agency Director at PT. AXA Financial Indonesia, almost all of AXA's clients are committed to repurchase health insurance every year. Although there is a small amount of increase in price, most clients are still willing to keep purchasing AXA's products. One of the main reasons this can happen is because they feel the need and importance to have protection. Based on an article at forbes.com, Kristin O'Keeffe Merrick states that almost everyone in the world are now fully aware about the importance of insurance (www.forbes.com retrieved at February 20 2019). This is the reason why the majority of AXA's clients are committed in repurchasing insurance.

Customer Loyalty is defined as a consistent purchase made by clients to buy a preferred product in the future (Ganesh, Arnold, & Reynolds, 2000; Jamal & Anastasia-dou, 2009; Kim et al., 2007; Oliver, 1999; Stank et al., 1999, 2003). Customer loyalty plays an important role for every company to have in order for their clients to keep purchasing products. Loyal customers will have the tendency of recommendation and repurchase intention (Bloemer & Odekerken-Schroder, 2002; Bowen & Shoemaker, 1998; Chi, Yeh, & Yang, 2009; Hennig-Thurau et al 2002; Kim et al., 2007; Singh & Sirdeshmukh, 2000; Stank et al., 1999, 2003; Yu & Dean, 2001). A loyal customer will have a high probability to recommend about the products or company to other people they know. They will also demonstrate a strong resistance when agents from other competitors persuade those using negative statements (Stank et al., 2003). From table 1.1, it is shown that the total amount of clients from the year 2016 was 2 million and on the year 2017 was 2,2 million which indicate an increased amount of customers which simply means that AXA has customer loyalty.

1.2 Research Problems

1. Does Salesperson Quality have a significant effect on the Relationship Quality of a Salesperson for AXA's clients in Surabaya?
2. Does Institution Image have a significant effect on the Relationship Quality of the Institution for AXA's clients in Surabaya?
3. Does Relationship Quality of a Salesperson have a significant effect on the Relationship Quality of the Institution for AXA's clients in Surabaya?
4. Does Relationship Quality of a Salesperson have a significant effect on Commitment for AXA's clients in Surabaya?
5. Does Relationship Quality of the Institution have a significant effect on Commitment for AXA's clients in Surabaya?
6. Does Commitment have a significant effect on Customer Loyalty for AXA's clients in Surabaya?

1.3 Research Objectives

1. To examine if Salesperson Quality have a significant effect on the Relationship Quality of a Salesperson for AXA's clients in Surabaya.
2. To examine if Institution Image have a significant effect on the Relationship Quality of the Institution for AXA's clients in Surabaya.
3. To examine if Relationship Quality of a Salesperson have a significant effect on the Relationship Quality of the Institution for AXA's clients in Surabaya.
4. To examine if Relationship Quality of Salesperson have a significant effect on Commitment for AXA's clients in Surabaya.
5. To examine if Relationship Quality of the Institution have a significant effect on Commitment for AXA's clients in Surabaya.
6. To examine if Commitment have a significant effect on Customer Loyalty for AXA's clients in Surabaya.

1.4 Research Contribution

The result of this research is expected to provide a great depth of the indicators of customer loyalty in the insurance sector. Specifically, this research will be beneficial to the current and future researchers. This research will help to complete the previous search especially towards customer loyalty from the point of salesperson quality and institution image. Lastly, this research will also seek the reason in why AXA can be the number one insurance company in the world, but it failed to do in Indonesia.

1.5 Research Limitations

There are only a few variables that are being used in his research; they are Salesperson Quality and Institution Image which leads to three different variables which are Relationship Quality of a Salesperson, Relationship Quality of the Institution, and Commitment to determine whether both Salesperson Quality and Institution Image have a significant effect towards Customer Loyalty. The research will be conducted through January until September 2019, in Surabaya.

1.6 Research Outline

Research outline is written with the purpose of explaining the systematic structure of this study. This study will consist of five chapters as follows:

Chapter I - Introduction

This chapter mainly consists of the background information about the problem that this study covers. This section will include previous studies and the definition of all important aspects that are going to be used throughout the entire study. Moreover, it will also give a detailed explanation on the research objectives that will be discussed in order to be able to contribute for future research.

Chapter II - Review of Related Literature

In this chapter, the author will describe some of the methods used in order to perform the experiment. All major findings throughout the world that have been published will be summarized in this chapter and how will this study be beneficial for the public in the future will also be explained. All description theories will be explained on why it is applicable for this research, why it is relevant, and how the modeling effort addresses the hypothesis to be tested.

Chapter III - Research Methodology

This chapter is a summary consists of the detailed discussion on the technical activities done in order to accomplish this study. This chapter will include research design, sampling plan, instruments that are used, statistical data, and treatment of the data that has been collected.

Chapter IV - Results and Discussion

In this chapter, the author will provide an organized presentation of all the findings that have been collected so far in the research questions. Then, a proper examination and observation will be conducted on how these major finding will lead back to the theory and previous researches that were presented in the beginning of the study.

Chapter V - Summary

This chapter provides a summary of the whole study, such as implications on how the study is related back to the real life, conclusions, as well as recommendations being made in order to improve the study of the research topics theoretically, methodologically, and substantive contributions that might be necessary to overcome the limitations of the existing facts.

