Far Western Review
A Multidisciplinary, Peer Reviewed Journal
ISSN: 3021-9019
Published by Far Western University
Mahendranagar, Nepal

A Study on Impact of Customer Centric Marketing on Customer Retention in Nepalese Life Insurance

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Abstract

Customer-centric marketing is a crucial factor in determining the survival and success of life insurers, particularly in competitive markets like Nepal. This study investigates the role of account control, trust benevolence, perceived risk, and interactive communication in enhancing customer retention within Nepalese life insurance.

The study employs a qualitative survey methodology, using a non-probability snowball sampling approach across Kathmandu Valley and beyond. It collects data from 178 respondents, yielding 152 valid responses. Reliability testing confirms strong internal consistency with Cronbach's alpha exceeding 0.7. The analysis is conducted using descriptive statistics and ordinal logistic regression.

All variables are statistically significant at a 95% confidence level, demonstrating their influence on customer retention. Account control is identified as the most impactful factor, followed by interactive communication, while trust benevolence has the least effect.

Customer-centric strategies play a vital role in fostering loyalty in Nepalese life insurance. Strengthening account control mechanisms and improving communication channels can drive long-term engagement and policyholder trust.

Practical implications for insurers in Nepal include the need to invest in digital platforms that allow policyholders to manage their accounts independently, train staff in responsive and personalized communication, and develop targeted strategies to reduce perceived risk. By prioritizing these areas, insurers can build stronger relationships, reduce churn, and improve overall customer satisfaction.

Keywords: Trust benevolence, account control, descriptive, deviance, customer-centric marketing

Introduction

Customer-centric marketing (CCM) is a strategic approach that prioritizes customer needs, engagement, and satisfaction, aiming to foster long-term relationships and enhance retention. In the insurance industry, CCM plays a vital role in maintaining policyholder trust and reducing churn rates. Customer retention (CR), which refers to an insurer's ability to retain policyholders over time, is influenced by factors such as service quality, perceived risk, and interactive communication. While global insurers have successfully integrated CCM to improve retention, its application in Nepal remains underdeveloped.

Nepal's life insurance industry has experienced steady growth in premium collection and outreach, yet it continues to face significant challenges in customer retention, with coverage rates declining despite increased market penetration. Many insurers struggle to maintain long-term relationships due to limited personalization, weak communication strategies, and insufficient customer empowerment.

This study addresses the critical gap in understanding how CCM factors; account control, trust benevolence, perceived risk, and interactive communication shape retention outcomes in Nepal's life insurance sector. By providing localized insights and practical recommendations, the study aims to help insurers enhance customer experience, reduce churn, and build lasting trust, ultimately contributing to the sector's financial sustainability and competitive edge.

The research is grounded in emphasizing trust-building and customer engagement, which assesses the impact of service quality on retention. By analyzing customer perceptions through qualitative surveys and ordinal logistic regression, this study provides localized insights that inform insurer strategies for improving retention.

This study aims to evaluate the impact of key perceptual factors in customer centric marketing: account control, trust benevolence, perceived risk, and interactive communication on customer retention in Nepalese life insurance.

By identifying retention challenges unique to Nepal's insurance sector, this research bridges the gap in localized insights and provides actionable recommend.

Literature Review

Customer retention is a critical focus for businesses, particularly in service-oriented industries such as insurance and financial services. In the context of life insurance, retaining policyholders is essential for long-term profitability and sustainability. This study is grounded in the theoretical framework of customer-centric marketing (CCM), which emphasizes four key perceptual constructs: account control, trust benevolence, perceived risk, and interactive communication. These constructs serve as the foundation for understanding customer retention dynamics in Nepal's life insurance sector.

Account control refers to the degree of autonomy and influence policyholders have over their insurance accounts, including decision-making and access to services. Trust benevolence captures the extent to which customers believe their insurer genuinely cares about their well-being. Perceived risk reflects the uncertainties policyholders associate with coverage, premiums, and potential losses. Interactive communication involves the timely, transparent, and engaging exchange of information between insurers and customers. These constructs are treated as reflective latent variables, adapted from validated scales by Steiner et al. (2014) and Schulze et al. (2012), and collectively form the basis for this study's hypothesis.

Lin and Wang (2011) explored the relationship between interactive marketing, service value, customer satisfaction, and behavioral intention in leisure farm businesses in Taiwan. Their study demonstrated that interactive marketing, including service personnel, physical facility, and service process, significantly affected customer satisfaction. While physical facility and service process had a direct positive impact on service value, service personnel did not. Ultimately, the study highlighted that service value and customer satisfaction played essential roles in shaping customers' behavioral intentions, encouraging businesses to enhance interactive marketing elements for improved customer retention.

Building on this, Zhang (2018) examined customer retention within the financial industry using survival analysis, assessing how firm-customer interactions and demographic characteristics influenced retention rates. The research found that higher interaction levels, including service usage, cross-buying, tenure experience, and complex product engagement, positively impacted customer retention. Additionally, demographic factors such as age, education, and income contributed to longer retention, whereas time pressure negatively affected it. The study also identified differences in retention patterns based on gender and marital status, suggesting that financial institutions should prioritize personalized service offerings and strategic customer engagement to strengthen retention.

Focusing on the insurance sector, Kacha (2022) analyzed factors affecting customer retention in Ethio Life and General Insurance Company (ELIG). This study applied a quantitative approach to assess the impact of premiums, customer service, switching barriers, customer relationships, and competition on retention. Findings revealed that premium pricing had the most significant effect, followed by customer service and switching barriers. With an adjusted R-squared value of 0.728, the study demonstrated that these factors collectively explained a substantial portion of retention variability. Based on these insights, the study recommended that insurance providers should prioritize fair pricing, enhance customer relationships, and minimize switching barriers to increase retention rates.

Dahal, Ghimire, and Joshi (2023) investigated post-purchase satisfaction among life insurance policyholders in Nepal, focusing on the roles of agent behavior, customer service, and company trust. Their study, based on 400 respondents from Kathmandu Valley, revealed that agent interaction and company reputation significantly influence satisfaction levels. The findings emphasize that policyholders view agents as key touchpoints and expect ongoing engagement beyond the initial purchase. This research supports the importance of personalized service and trust-building in enhancing customer experience, aligning well with the principles of customer-centric marketing.

The research from Harvard Business School, as referenced by REVE Chat (2024), highlights the significant impact of customer retention on a company's profitability. By increasing customer retention rates by just 5%, companies can see a substantial boost in profits, ranging from 25% to 95%. This is largely because existing customers are more inclined to make additional purchases, renew their policies, and refer new customers, which in turn generates more revenue without the need for extensive marketing efforts.

These studies reinforce the relevance of the four CCM constructs selected for this research and highlight the need for localized investigation in Nepal's insurance context.

Research Gap

A review of the literature on the Insurance industry in Nepal is very few whether it be life insurance or nonlife insurance. There is not enough study on the dimensions of customer centric marketing in a Nepalese Insurance context.

The findings from another country cannot be generalized for the Nepal market as we are still in developing phase of insurance business. In this growing phase of insurance industry in Nepal, it is necessary to understand the factors of customer centric marketing that influences customer retention. Hence, it helps to identify and recognize the impact of perceptual factors of customer centric marketing on customer retention in Nepalese life insurance.

Research Hypothesis

The hypothesis of the study is:

i. The perceptual factors (Account Control, Perceived Risk, Interactive Communication and Trust Benevolence) of customer centric marketing influence customer retention in Nepalese Life Insurance.

Research Design

This study adopts a quantitative research approach, utilizing a cross-sectional survey design to assess the impact of customer-centric marketing on retention in Nepalese life insurance. It focuses on account control, trust benevolence, perceived risk, and interactive communication as key determinants of policyholder retention.

A structured questionnaire was used to collect data from life insurance policyholders across diverse geographic regions.

Data Collection & Sampling

Sampling Area & Rationale

Data was collected from respondents inside and outside Kathmandu Valley through Google Forms and structured questionnaires. The rationale for selecting this diverse sampling area was to capture varied policyholder experiences, considering urban and semi-urban population differences in insurance accessibility and engagement.

Sample Size & Population

The target population consisted of individuals familiar with life insurance policies, ensuring relevant insights into retention factors. A total of 170 respondents participated, of which 152 valid responses were retained for final analysis. The sample focused on policyholders who could provide informed perspectives on retention challenges within Nepal's insurance market.

Sampling Technique & Selection Criteria

A non-probability snowball sampling technique was employed due to accessibility challenges in reaching life insurance policyholders directly. Initial respondents were encouraged to refer others within their networks, enhancing representation across different geographic and demographic segments.

This method was chosen for its effectiveness in gathering data from a dispersed and hard-to-reach population, especially in a context where centralized insurance databases are limited.

Demographic Characteristics of Respondents

Among the 152 valid respondents:

- Gender:52% male and 48% female
- Age:70 % were between 27-45 years
- Education: 68% held at least a high school degree
- Occupation: Corporate employees, government employees and entrepreneurs

Survey Design & Measurement Scales

The questionnaire contained X items, structured into X constructs, covering key customer-centric marketing factors.5-point Likert scale (ranging from 1-Strongly Disagree to 5-Strongly Agree) was used to gauge respondents' agreement levels with various customer experience indicators. Reliability testing confirmed a Cronbach's alpha above 0.7, ensuring strong internal consistency.

Model Specification for Data Analysis

For this research, descriptive statistics and ordinal logistic regression are employed to understand perceptions and the relationships between independent and dependent variables. For ordinal logistic regression.

This regression model was selected because the dependent variable: customer retention is ordinal in nature, reflecting varying levels of retention likelihood.

The model is:

$$\log(CR) = logit[\alpha + \beta_1.AC + \beta_2.T + \beta_3.PR + \beta_3.IC]$$

where;

$\beta_i = beta\ coefficients\ , i = 1,2,3,4$

$CR = Customer\ Retention$

$AC = Account\ Control$

$T = Trust$

$PR = Perceived\ Risk$

$IC = Interactive\ Communication$

Reliability Test

Table 1

Reliability for Likert Scale Data

Variables	Cronbach's alpha	N of items
Account Control	0.73	4
Trust Benevolence	0.78	4
Perceived Risk	0.76	3
Interactive Communication	0.79	4
Customer Retention	0.78	5

Note. Source: Survey 2024

In table 3.1 the value of Cronbach's alpha for all variables are greater than 0.7 (i.e.>0.7). This indicates that the data taken for this study is reliable.

Results

All four customer-centric factors significantly affect retention. Account control has the strongest impact, followed by interactive communication. Trust benevolence and perceived risk show weaker influence. Model fitting, pseudo R-square (0.80), and goodness-of-fit tests validate the reliability of the model. Parameter estimates show all variables are statistically significant at the 95% confidence level.

Descriptive Statistics of the Variable

Table 2

Account Control

Statement	Mean	Percentage of mean (%)	Standard Deviation
Policyholder should have control over their account	4.13	82.6	0.67
Policyholder should have control over their investment decision within their account.	4.13	82.6	0.75
I can easily access all insurance services.	3.78	75.6	0.83
I can decide on when to access my account.	3.89	77.8	0.76

Note. Source: Field Survey 2024

The study examined respondents' agreement with four statements using mean values and standard deviations to assess consistency in responses. The first two statements had a mean value of 4.13, indicating that approximately 82.6% and 81.4% of respondents, respectively, agreed with them, with standard deviations of 0.67 and 0.75, showing minimal variability in responses. The third statement had a lower mean value of 3.78, with 75.6% agreement, and a higher standard deviation of 0.83, suggesting a relatively wider range of responses. The fourth statement had a mean value of 3.89, reflecting 77.8% agreement, with a standard deviation of 0.76, indicating moderate variability.

Overall, these results highlight that most respondents agreed with the statements, with varying degrees of consistency in responses. Higher mean values suggest stronger agreement, whereas higher standard deviations indicate greater dispersion in opinions. Among the analyzed factors, account control showed the highest impact on customer retention, whereas trust benevolence had the least influence.

Table 3

Trust Benevolence

Statement	Mean	Percentage of mean (%)	Standard Deviation
I am confident about the services provided by the insurance.	3.64	72.8	0.82
I believe that my savings are not misused.	3.64	72.8	0.87

I believe that insurance company provides better financial security.	3.77	75.4	0.85
I believe that insurance company keeps my transactions confidential.	3.87	77.4	0.87

Note. Source: Field Survey 2024

Respondent agreement ranged from 72.8% to 77.4%, with moderate variability (standard deviations between 0.82 and 0.87). The third and fourth statements had slightly higher agreement, indicating stronger consensus.

Table 4

Perceived Risk

Statement	Mean	Percentage of mean (%)	Standard Deviation
Insurance services are satisfactory.	3.7	74	0.73
Insurance minimizes my risk.	4.01	80	0.76
Any errors in service delivery will be easily identified and rectified.	3.62	72	0.79

Note. Source: Field Survey 2024

The study shows that respondent agreement ranged from 72% to 80%, with standard deviations between 0.73 and 0.79, indicating moderate variability in responses. The second statement had the highest agreement (80%), suggesting a stronger consensus among respondents, while the third statement had the lowest (72%), reflecting slightly greater divergence in opinions.

Table 5

Interactive Communication

Statement	Mean	Percentage of mean	Standard Deviation
Customer complaints are quickly addressed.	3.19	64	0.98
Staffs are determined to solve customer's problem.	3.39	67.8	0.91
Customer's feedback is encouraged.	3.34	66.8	0.94
Customers are timely updated about the products and services.	3.45	69	1.05

Note. Source: Field Survey 2024

The study indicates that respondent agreement ranged from 64% to 69%, with standard deviations between 0.91 and 1.05, reflecting moderate variability in responses. The fourth statement had the highest agreement (69%), while the first had the lowest

(64%), suggesting varying levels of consensus among respondents.

Table 6

Customer Retention

Statement	Mean	Percentage of mean (%)	Standard Deviation
I am likely to continue with this insurance.	3.63	72.6	0.90
I encourage other people to enroll in this insurance.	3.43	68.6	0.9
I will not switch to another insurance company even if better service is provided.	2.78	55.6	0.94
I will not switch to another insurance company even if better profit is provided.	2.6	52	1.23
I am not influenced by competent insurance company's marketing.	3.1	62	1.16

Note. Source: Field Survey 2024

The study reveals varying levels of respondent agreement, ranging from 52% to 72.6%, with standard deviations between 0.9 and 1.23, indicating moderate variability in responses. The first statement had the highest agreement (72.6%), while the fourth had the lowest (52%), showing differing levels of consensus.

Model Fitting Information

Model fitting information assesses whether the proposed model differs from the baseline model, which contains no independent variables and assumes no relationship between them. The study tests the null hypothesis, stating that no relationship exists between the dependent and independent variables.

Table 7

Model Fitting Information

Model	-2log likelihood	Chi-square	df	p-value
Intercept only	774.92			
Final	537.71	237.52	4	0.00

Note. Source: Field Survey 2024

The final model shows a better fit compared to the intercept-only model, as its deviance is closer to zero. The chi-square value of 237.52 with a p-value <0.01 indicates statistical significance, leading to the rejection of the null hypothesis and confirmation of a relationship between the independent and dependent variables.

Pseudo R-square

The value of pseudo R-square Negelkerke value indicates that the proportion of variance is explained by the independent variable on dependent variable.

Table 8

Pseudo R-square

Negelkerke	
Link function logit	0.80

Note. Source: Field Survey 2024

The value of pseudo R square in table 4.4 is 0.80 (80%) which explains that the 80% of the variance in dependent variable is explained by independent variable and remaining 20% is considered to be an error.

Goodness of fit

Goodness of fit test is done to find out the observed data is consisted to our model. So for this our hypothesis is:

Null hypothesis: The observed data is having goodness of fit with the model.

Table 9

Goodness of Fit

	Chi-square	df	p-value
Pearson	1946.02	2747	0.99

Note. Source: Field Survey 2024

The chi-square value in table 4.6 is 1946.02 and the p-value is 0.99. The p-value is greater than 0.05 which indicates that we accept the null hypothesis i.e. the observed data is fit with the fitted model.

Parameter Estimation

Parameter estimation is done to find out the beta coefficients and significance value for the beta coefficients.

Table 10

Parameter Estimation

		Estimates	Std. Error	p-value
Location parameters	AC	3.4	0.57	0.00
	TB	1.9	0.52	0.00
	PR	1.1	0.54	0.03
	IC	2.9	0.52	0.00

Note. Source: Field Survey 2024

The beta coefficients indicate that all variables are statistically significant at a 95% confidence level, showing measurable effects on retention.

Among these, account control has the strongest influence, with a beta coefficient of 3.4, meaning that improved account management significantly enhances customer retention. Interactive communication follows closely with a beta value of 2.9, highlighting the importance of effective and engaging communication between insurers and their customers. Trust benevolence, with a beta coefficient of 1.9, also contributes positively, though to a lesser extent, indicating that ethical business practices and trust-building efforts support retention. Perceived risk, with the lowest impact at a beta value of 1.1, suggests that while risk perception affects customer loyalty, it is less influential compared to other factors.

Test of Parallel Lines

The test of parallel lines as a test of whether the regression coefficients would be the same or different across these two regression models. In other words, the effect of predictors are same across the level of dependent variable.

Null hypothesis: The location parameters are same across the response category.

Table 11

Test for Parallel Line

Model	-2log likelihood	Chi-square	df	p-value
Null Hypothesis	536.9			
General	522.1	14.83	80	0.99

Note. Source: Field Survey 2024

From table 4.7 the chi-square is 14.83 and p-value is greater than 0.05 (>0.05), which guides us to accept the null hypothesis. Hence the null hypothesis states that the location parameters are same across response categories.

Discussion

The study highlights the strong influence of customer-centric marketing on policyholder retention in Nepalese life insurance. Account control is the most significant factor, showing that policyholders highly value autonomy in managing their policies and insurers that provide easy access, customization, and digital engagement can significantly boost loyalty. This finding aligns with Zhang (2018), who emphasized that customer empowerment and service usage positively influence retention in the financial sector. It also supports Kacha (2022), who found that customer control and service accessibility were key drivers of retention in the Ethiopian insurance market.

Interactive communication also plays a vital role, but gaps in customer feedback and responsiveness indicate that insurers need to enhance real-time communication channels and proactive outreach to prevent churn. This reinforces with that of Lin and Wang (2011), who demonstrated that interactive marketing enhanced customer satisfaction.

Trust benevolence, while important, has a relatively lower impact than direct engagement strategies, suggesting that policyholders prioritize tangible interactions over abstract goodwill. Perceived risk, the least influential factor, shows that policyholders focus more on service accessibility rather than fear-based considerations.

Conclusion

This study establishes that customer-centric marketing significantly influences customer retention in Nepalese life insurance, with account control and interactive communication emerging as the strongest predictors. While insurers have succeeded in fostering trust and minimizing perceived risk, communication gaps remain a challenge, impacting policyholder loyalty.

For insurers, the findings underscore the need to strengthen digital accessibility and invest in tools that empower customers to manage their policies independently. Enhancing interactive communication channels, such as real-time updates, responsive service platforms, and feedback mechanisms can further improve engagement and reduce churn.

At the policy level, regulators should encourage transparency and customer empowerment measures, ensuring insurers adopt clear communication frameworks and digital accessibility standards.

Despite these insights, a research gap remains in understanding long-term retention behavior and the role of emerging technologies such as AI-driven customer service, mobile insurance platforms and predictive analytics. Future studies could also compare Nepal's insurance strategies with other South Asian markets for broader industry insights.

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