

# The Effect of Insurers' Ethics on Customer Attraction: A Case Study of Iran Insurance Company Agencies in Mashhad

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## Abstract

According to the significance of ethics in different organizations and communities and regarding the necessity of considering this issue in insurance industry, this research is conducted to study the effect of insurer's ethics on customer attraction by insurance companies. Moral values including honesty, fairness, respect and honor, accountability, and reliability components are individually investigated in this study to show the effect of these variables on customer attraction by insurance companies. This is an applied research in term of purpose and a descriptive-survey, field study in term of nature. Research population included all customers of Iran insurance company agencies in Mashhad City. 384 individuals were randomly selected through simple random sampling method as research sample. Further, data were collected through a questionnaire; the questionnaire reliability was estimated using Cronbach test. Research hypotheses were tested by using structural equations method. The results of hypotheses' analysis indicated that all five ethical codes including honesty, fairness, respect and honor, accountability and reliability influence customer attraction in Iran insurance company. Overall, according to research results, it is inferred that insurer's ethics may influence customer attraction by insurance companies.

**Keywords:** Ethics, moral behavior, insurer, customer attraction, Iran insurance company.

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## Introduction

The new age witnessed the tendency of management toward metaorganization perspective considering external environments of the organization. At present, effective management is referred to the management released from organizational thought and contemplating the society and wider contexts (Alvani and Qasemi; 1998).

Corporate ethics and social responsibility is the issue seeking for ensuring the corporations to maintain the constancy and to sustain the interests in the community. Indeed, ethics (morality) and social responsibility are the conscious conscience of the company violating of which may hurt the company and the operating community (Qorbani et al, 2005).

On the other side, today, manufacturing or service organizations consider customer satisfaction as the critical criterion of the quality assessment. Since customer satisfaction is of the significant theoretical and experimental issues administrative sciences and marketing managers and scholars and is viewed as success essence in the present competitive world (Beykzade et al, 2011).

Thus, this research studied the effect of ethical components of honesty, fairness, respect and honor, accountability, and reliability of the insurers on customer attraction by Iran insurance company agencies in Mashhad city, Iran.

## Statement of the problem and research significance

Several different statements are expressed by scholars replying the question of what moral behavior is. Some believe in the ethics steadiness; while, some others insist on its relativity. However, despite the diversity of norms and values in ethics, there is seen a common ethical norm- the golden rules- in most groups and cultures (Mudrack, 2012). All great insurers around the world deduced that possessing professional ethics is like wining; whereas, in some cases, some insurers attribute the losses to professional ethics. It is frequently seen in the literature that developed insurance industry nations may expose to more developed professional ethics such that the insurers more rely on the professional ethics for market maintenance (Riyahi far, 2011). Insurance ethics initially stems from insurance companies' accountability before the rights of its organizational elements. These elements are not merely limited to the four insurance pillars, namely, policy holder, insurer, insurance brokers and agencies, and regulatory organizations. Any insurer company, as an organization enjoying the legal personality and effective role in the social life is ethically responsible for policy holders, agencies, brokers, regulatory organizations, competitors, national interests, neighbors, suppliers, partners, credit financial institutes, mass media, government, as well as certificate authorities, etc. (Viaene and Dedende, 2004).

In fact, today, with more complex societies, officials and managers make every effort to maintain human resources, decrease dissatisfaction and to increase organizational effectiveness. One effective factors of staff maintenance is the flow of a set of values referred as morality. Ethics or morality is defined as a set of values verifying right and wrong decisions as well as individual or organizational decisions (Zahedi, 2000).

Discussing about ethics goes beyond the area of management and regulations; the organization moves toward self-control and self-discipline; and finally, it reaches to the culture of literacy and prioritizing others' interests than ours. It is largely mentioned in the national insurance industry and insurers' syndicate and insurance agencies seriously value this issue; however, the important point is how to implement. All insurers, in the professional ethics, are encountered with the issue of performance bond. Whether there is a performance bond to realize the expectations of the national insurance industry under the title of professional ethics. If such organization is established and insurers, insurance agencies and in general commercial insurance sales network follow a more powerful criterion and are regularly controlled and monitored by independent organizations; then, the professional ethics will be fertile and productive. Otherwise, it requires being regulated; then, it will be the law ruling rather than the ethics (Riyahi far, 2011).

The present business area largely emphasizes on intangible assets such as commitment, work ethic and code of ethics. These key sources may introduce the organization, regardless of the associated industry, as an ideal and direct the organization along transcending the rivals and creating the competitive advantage. As insurance is an intangible service; hence, it is critically important how it is supplied and sold. A successful, competent vendor helps the customer, within sale process, to express the idea, comments and demands of insurance purchase and to confidently make decisions. It may not be haphazardly; rather, it is carried out on a predetermined plan within customer and vendor appointments through positively impressing the customer by the vendor such that the customer trusts in and is encouraged to purchase from its company.

Moreover, according to previous studies, vendors significantly contribute in customers' perception of the organizational reliability. Influencing customer decisions is of the outcomes occurred due to the customer confidence to the vendor. By more ethical sale behavior, the vendor may cause increased confidence of the customer and convince the customer to buy insurance policy from the certain company.

Thus, the researcher is intended to study the effect of ethical components of honesty, fairness, respect and honor, accountability and reliability of insurers on customer attraction by Iran insurance company agencies in Mashhad.

## **Research objectives**

### *Research main objectives*

The main purpose of this research is to study the effect of insurer's ethics on customer attraction by insurance companies.

### *Research secondary objectives (sub-objectives)*

- To study the effect of insurer's honesty on customer attraction by insurance companies
- To study the effect of insurer's fairness on customer attraction by insurance companies

- To study the effect of client respecting and honoring by insurer on customer attraction by insurance companies
- To study the effect of insurer's accountability on customer attraction by insurance companies
- To study the effect of insurer's reliability on customer attraction by insurance companies

## Research hypotheses

### *Research main hypothesis*

**H:** *Insurer's ethics influences customer attraction by insurance companies.*

### *Research secondary hypotheses (sub hypotheses)*

**H<sub>1</sub>:** *Insurer's honesty influences customer attraction by insurance company.*

**H<sub>2</sub>:** *Insurer's fairness influences customer attraction by insurance company*

**H<sub>3</sub>:** *Insurer's respect and honor to the client influences customer attraction by insurance company.*

**H<sub>4</sub>:** *Insurer's accountability influences customer attraction by insurance company.*

**H<sub>5</sub>:** *Insurer's reliability influences customer attraction by insurance company.*

## Research conceptual model

The researcher tried to measure the effect of ethics and its components on customer attraction. As seen in the diagram, the present research model shows the effect of independent variables of ethical codes including honesty, fairness, respect and honor, accountability, and reliability, in term of American Marketing Association, on the dependent variable of customer attraction by insurance companies.

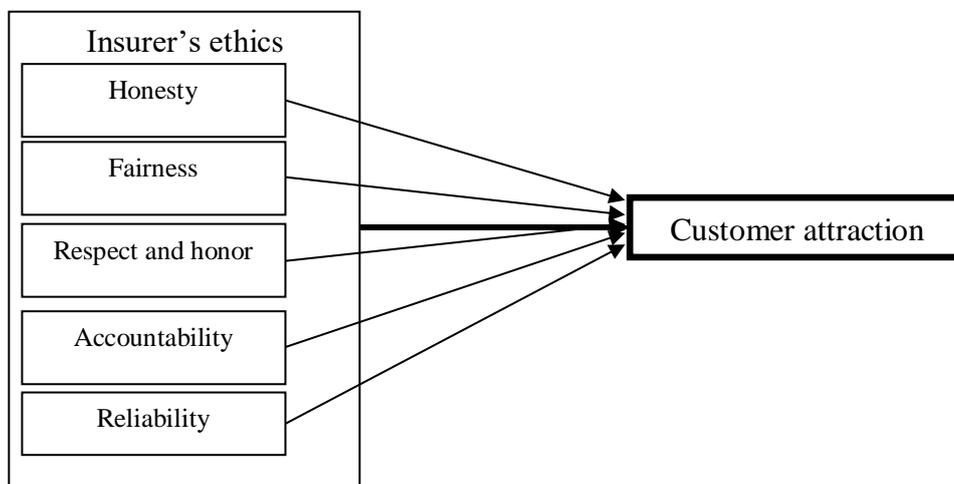


Diagram 1: Research conceptual model based on Roman and Ruiz (2005) and Code of ethics for marketers established by American Marketing Association

### Research methodology

This is an applied study in term of purpose and a descriptive, field survey in term of nature. Statistical population of the study included customers of insurance agencies and companies in Mashhad. 384 participants were randomly selected through simple random sampling method using Cochran formula. In addition, research data were collected by a questionnaire. Once the questionnaire validity was verified by the advisor, some insurance professors and experts, 30 questionnaires were completed for preliminary test; then, the questionnaire reliability was estimated by Cronbach's alpha test. And finally, the test and statistical analysis of research hypotheses were discussed. The hypotheses were tested through Kolmogorov–Smirnov test and structural equations.

#### *Respondents' distribution in term of gender (sex)*

Respondents' gender is of the demographic variables. Table 1 represents respondents' gender frequency in terms of number and percent. As observed, 51.82% of the respondees were male and 48.18% were female.

Table 1: Respondents' gender frequency (%)

| Gender | Frequency | %     |
|--------|-----------|-------|
| Male   | 199       | 51.82 |
| Female | 185       | 48.18 |
| Total  | 384       | 100   |

#### *Respondents' distribution in term of age*

Descriptive statistics of respondents' age is illustrated in the following table. As seen, 25.52% of the respondents are in age range of smaller than 25 years old; 28.39% within 25-35; 36.98% are in the age range of 35-45 and 9.11% are 45 and older.

Table 2: Respondents' age frequency (%)

| Age                       | Frequency | Frequency in % |
|---------------------------|-----------|----------------|
| Smaller than 25 years old | 98        | 25.52          |
| 25-35 years old           | 109       | 28.39          |
| 35-45 years old           | 142       | 36.98          |
| 45 years and older        | 35        | 9.11           |
| Total                     | 384       | 100.0          |

#### *Respondents' distribution in term of education level*

The respondents' education level is provided in the following table. As seen, 39.58% of the respondees finished high school, 47.14% hold an associate and bachelor degree; in addition, 13.28% had master degree and higher.

Table 3: Respondents' education level frequency (%)

| Education level               | Frequency | Frequency (%) |
|-------------------------------|-----------|---------------|
| High school diploma           | 152       | 39.58         |
| Associate and bachelor degree | 181       | 47.14         |
| Master degree and higher      | 51        | 13.28         |
| Total                         | 384       | 100           |

## The results of inferential statistics

### *Kolmogorov–Smirnov test*

A variable data normality distribution is examined by using Kolmogorov–Smirnov test. This research applied this test to scrutinize the normality of the questionnaire variables. If this requirement is met; then, the maximum likelihood is used for structural equations. Test results are represented in Table 4. Regarding that test significance level of all variables is larger than 0.05; thus, variables' normality is maintained meaning that the maximum likelihood method is used for modeling structural equations.

Table 4: Results of Kolmogorov–Smirnov test

| Variables           | Number of data | Statistic | Significance level |
|---------------------|----------------|-----------|--------------------|
| Honesty             | 384            | 0.881     | 0.243              |
| Fairness            | 384            | 0.688     | 0.161              |
| Respect and honor   | 384            | 0.595     | 0.834              |
| Accountability      | 384            | 1.332     | 0.117              |
| Reliability         | 384            | 1.018     | 0.108              |
| Customer attraction | 384            | 1.219     | 0.735              |
| Customer attraction | 384            | 1.219     | 0.735              |

## Confirmatory factor analysis (measurement model)

Prior to evaluating the proposed structural model, it is necessary to investigate significance of regression weight (factor loading) of the questionnaire constructs in predicting the corresponding items in order to ensure measurement model fitness and indicators' acceptability for constructs' measurement. This is carried out by confirmatory factor analysis technique.

Table 5 shows the results of confirmatory factor analysis of the questionnaire items. Loading factor is assumed smaller than 0.3, which is excluded from model; in addition, if t-value is larger than 1.96 or smaller than -1.96, indicators provide proper factor structures, at confidence level 95%, for measuring understudied dimensions in research model.

The results of confirmatory factor analysis are offered in Table 5. According to the table, t- statistic is larger than 1.96 in all cases; further, factor loading is also larger than 0.3. Thus, it is inferred that the selected questions (items) provide proper factor structures for estimating understudied dimensions in research model.

Table 5: The results of confirmatory factor analysis of the variables

| Variables           | Question number | Factor loading | T-statistic | Standard error (SE) |
|---------------------|-----------------|----------------|-------------|---------------------|
| Honesty             | q1              | 0.45           | 3.19        | 0.141               |
|                     | q2              | 0.55           | 8.97        | 0.061               |
|                     | q3              | 0.33           | 5.1         | 0.065               |
|                     | q4              | 0.53           | 3.83        | 0.138               |
| Fairness            | q5              | 0.49           | 3.24        | 0.151               |
|                     | q6              | 0.77           | 3.64        | 0.212               |
|                     | q7              | 0.62           | 7.38        | 0.084               |
|                     | q8              | 0.66           | 4.5         | 0.147               |
| Respect and honor   | q9              | 0.32           | 5.45        | 0.059               |
|                     | q10             | 0.58           | 12.1        | 0.048               |
|                     | q11             | 0.51           | 10.94       | 0.047               |
|                     | q12             | 0.47           | 11          | 0.043               |
| Accountability      | q13             | 0.61           | 14.78       | 0.041               |
|                     | q14             | 0.69           | 13.14       | 0.053               |
|                     | q15             | 0.72           | 11.04       | 0.065               |
|                     | q16             | 0.53           | 8.29        | 0.064               |
| Reliability         | q17             | 0.69           | 16.91       | 0.041               |
|                     | q18             | 0.74           | 18.42       | 0.040               |
|                     | q19             | 0.63           | 15.1        | 0.042               |
|                     | q20             | 0.5            | 12.89       | 0.039               |
| Customer attraction | q21             | 0.63           | 12.48       | 0.050               |
|                     | q22             | 0.33           | 4.8         | 0.069               |
|                     | q23             | 0.42           | 21.34       | 0.020               |
|                     | q24             | 0.37           | 8.2         | 0.045               |

To analyze the hypotheses, it is necessary to initially process the formulated theoretical model for each hypothesis so that it is figured out that to what extent the collected data cover the theoretical model. This question was replied by model fitness quantitative indicators (CFI, GFI, and RMR ...). In case of accepted general factors or in a better word, where general factors are maintained by the theoretical model; then, model internal relationships are discussed. Table 6 represents model fitness factors and the desired values.

Table 6: Fitness factors

| Test        | Description                                     | Acceptable values | Obtained values |
|-------------|---|-------------------|-----------------|
| $\chi^2/df$ | Relative Chi square                             | <3                | 1.79            |
| RMSEA       | Root mean square error of approximation (RMSEA) | <0.1              | 0.067           |
| GFI         | Modified fitness factor                         | >0.9              | 0.93            |
| RMR         | Root mean square residual                       | <0.1              | 0.084           |
| NFI         | Soft fitness index                              | >0.9              | 0.92            |
| CFI         | Comparative fit index                           | >0.9              | 0.94            |

According to Table 6, RMSEA equals 0.067 and regarding that it is smaller than 0.1, it demonstrates that model mean square errors is proper and model is acceptable. Moreover, the Chi square is between 1 and 3 at two 423.89 and .237 degrees of freedom; further, GFI, CFI and NFI factor values are larger than 0.9.

Therefore, according to the aforementioned and regarding fitness quantitative factors, it is concluded that the research theoretical model is acceptable; hence, model internal relationships may now be considered. A relationship is significant at the confidence level of 95% where the t-value is larger than 1.96 or smaller than -1.96.

### *Describing testing hypotheses*

Research hypotheses and statistical testing were investigated following the variables are described. In other word, the findings are analyzed in the following in order to statistically verify research hypotheses. At this section, research hypotheses are studied using structural model in structural equations. The present research consists of a main hypothesis and five sub-hypotheses; the results of analyzing the hypotheses are provided in the following table:

**First sub-hypothesis:** Insurer’s honesty influences customer attraction by insurance companies.

Studying the effect of insurer’s honesty on customer attraction reveals that the path coefficient is 0.61. T statistic equals 6.86, which is bigger than 1.96; as a result, this path coefficient is significant at the error level 0.05. It means that insurer’s honesty positively and significantly influences customer attraction by insurance companies. The results are illustrated in Table 7.

Table 7: Path coefficient and t statistic of the first sub-hypothesis

| Path coefficient | T statistic | Standard error |
|------------------|-------------|----------------|
| 0.61             | 6.86        | 0.089          |

**Second sub-hypothesis:** Insurer’s fairness influences customer attraction by insurance companies.

As observed in diagrams 4 and 5, the path coefficient between insurer’s fairness and customer attraction is 0.55, which is a positive value. T-statistic equals 4.20 that is larger than 1.96. Thus, it may be stated that insurer’s fairness at the confidence level of 95% shows a positive, significant effect on customer attraction by insurance companies. As a result, the second sub-hypothesis is maintained.

Table 8: Path coefficient and t statistic of the second sub-hypothesis

| Path coefficient | T statistic | Standard error |
|------------------|-------------|----------------|
| 0.55             | 4.2         | 0.13           |

**Third sub-hypothesis:** Insurer’s respecting to the client influences customer attraction by insurance company.

According to the obtained results of the structural equations, the path coefficient between insurer's respect and honor and customer attraction equals 0.48 that is positive. T statistic value is 9.48, which is larger than 1.96; therefore, insurer's respect and honor positively and significantly influences customer attraction at the confidence level 95%. Thus, the third sub-hypothesis is maintained.

Table 9: Path coefficient and t-statistic of the third sub-hypothesis

| Path coefficient | T statistic | Standard error |
|------------------|-------------|----------------|
| 0.48             | 9.48        | 0.051          |

**Fourth sub-hypothesis:** Insurer's accountability influences customer attraction by insurance companies.

Examining the effect of insurer's accountability on customer attraction, according to diagrams 4 and 5, shows that the path coefficient between insurer's accountability and customer attraction corresponds 0.68, which is a positive value. T-statistic value is 11.47 that is larger than 1.96; as a result, insurer's accountability demonstrates a positive, significant effect on customer attraction by insurance companies at 95%. Thus, the fourth sub-hypothesis is maintained.

Table 10: Path coefficient and t-statistic of the fourth sub-hypothesis

| Path coefficient | T statistic | Standard error |
|------------------|-------------|----------------|
| 0.68             | 11.47       | 0.059          |

**Fifth sub-hypothesis:** Insurer's reliability influences customer attraction by insurance companies.

According to the results of structural equations, the path coefficient between insurer's reliability and customer attraction is the positive value of 0.75. T-statistic value equals 8.18, which is larger than 1.96. Therefore, at confidence level 95%, it is seen that insurer's reliability has a positive, significant effect on customer attraction. Thus, the fifth sub-hypothesis is maintained.

Table 11: Path coefficient and t-statistic of the fifth sub-hypothesis

| Path coefficient | T statistic | Standard error |
|------------------|-------------|----------------|
| 0.75             | 8.18        | 0.092          |

**Main hypothesis:** Insurer's ethics influences customer attraction by insurance companies.

According to the results obtained from the first to the fifth sub-hypotheses, honesty, fairness, respect and honor, accountability as well as reliability of the insurer may significantly influence customer attraction by insurance companies. Hence, it may be

stated that insurer's ethics significantly influences customer attraction by insurance companies. Therefore, research main hypothesis is also maintained.  
 maintained.

Table 12: Summary of testing hypotheses

| Hypothesis  | Result    |
|---|-----------|
| First sub-hypothesis: Insurer's honesty influences customer attraction by insurance companies.                | Supported |
| Second sub-hypothesis: Insurer's fairness influences customer attraction by insurance companies.              | Supported |
| Third sub-hypothesis: Insurer's respecting to the client influences customer attraction by insurance company. | Supported |
| Fourth sub-hypothesis: Insurer's accountability influences customer attraction by insurance companies.        | Supported |
| Fifth sub-hypothesis: Insurer's reliability influences customer attraction by insurance companies.            | Supported |
| Main hypothesis: Insurer's ethics influences customer attraction by insurance companies.                      | Supported |

### Results and conclusion

Considering research questionnaire, the results of examining demographic factors demonstrate that most of the respondents were male in the age range of 35-45, holding association and bachelor degrees. Finally, according to the obtained results of the first to the fifth sub-hypotheses, honesty, fairness, respect and honor, accountability as well as reliability of the insurer may significantly influence customer attraction by insurance companies. Thus, it is expressed that insurer's ethics significantly influences customer attraction by insurance companies. Therefore, research main hypothesis is maintained. Insurance sales, the vendor and its interaction with customer or insurance buyer are critically significant. Hence, the professional vendor contribution may not be disregarded. The professional vendor manages and directs the negotiation such that the individual feels more secured and satisfactorily purchases the insurance policy. If marketers follow an ethical sales behavior and are ethically committed to sales relationships with customers, it considerably attracts customer confidence such that it consequently influences customer attraction and loyalty.

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