

Examine the effects of customer satisfaction on customer loyalty: An empirical study in the healthcare insurance industry in Hong Kong

Abstract

Customer loyalty, which is affected by satisfaction, brand preference and switching costs, is an important concept in service industries as it is known to increase market share and revenue while bringing down the cost of acquiring and retaining customers. Healthcare insurance is one such service industry and it is currently the focus of attention in Hong Kong due to the introduction of an insurance-based healthcare plan for its citizens. In the past decade, a number of empirical studies related to healthcare have been conducted in Western countries. However, in order to acquire a better understanding of customer loyalty in the context of healthcare insurance in Hong Kong it was considered essential to conduct an in-depth study in that special administrative region of China. The objectives of the research were to determine the following: the direct effects of customer satisfaction on customer loyalty; the direct effects of customer satisfaction on brand preference; the direct effects of brand preference on customer loyalty; the direct effects of customer satisfaction on switching costs; the direct effects of switching costs on customer loyalty; the direct effects of switching costs on brand preference; the mediating effects of brand preference on the causal relationship between customer satisfaction and customer loyalty; the mediating effects of switching costs on the causal relationship between customer satisfaction and customer loyalty; and the mediating effects of brand preference on the causal relationship between switching costs and customer loyalty. The research methodology involved a questionnaire survey of over five hundred respondents and quantitative analysis of the collected data using structural equation modeling. The results indicate that: customer satisfaction has a positive direct effect on customer loyalty; customer satisfaction has a positive direct effect on brand preference; brand preference has a positive direct effect on customer loyalty; customer satisfaction has a positive direct effect on switching costs; switching costs have a positive direct effect on customer loyalty; switching costs have a positive direct effect on brand preference; the influence of customer satisfaction on customer loyalty is mediated by brand preference; the influence of customer satisfaction on customer loyalty is mediated by switching costs; and that the influence of switching costs on customer loyalty is mediated by brand preference. The research findings provide new and useful insights for the managers of healthcare insurance providers in Hong Kong that will help them understand their customers better.

1. Introduction

The Hong Kong Special Administrative Region (HKSAR), hereinafter also referred to as Hong Kong, has traditionally demonstrated a strong social responsibility for the healthcare of its permanent residents (Lieu, 2010). Public spending in healthcare increased from around HK\$250 billion in 2007-08 to over HK\$418 billion in 2012-13. This nearly 70% increase is significantly more than 21% GDP growth during the same period. Out of the three society-related sectors, education, infrastructure and health, health has received a great deal of public attention in recent years. During the last few years, the Hong Kong

government has increased their expenditure substantially to improve healthcare services. The estimated spending on healthcare is \$45 billion for 2012-13, a more than 40% increase when compared with 2007-08 (HKSAR Budget, 2012). With this continuous increase in spending, specialist services and healthcare facilities, including in-patient service capacity, neonatal intensive care and mental illness service for the public, have been constantly upgraded and expanded (HKSAR Budget, 2012). At the same time, the Hong Kong government is progressively reforming its healthcare service, including improving primary care, encouraging public-private partnership, as well as establishing a hospital accreditation and an electronic health record sharing system. The healthcare reform comprises three initiatives: a review of healthcare manpower strategy, enhancing healthcare service development, and establishing a regulatory framework for the Health Protection Scheme (HPS). These reforms are expected to be gradually put into place in 2013 (HKSAR Budget, 2012) to provide better health care services to the public.

1.1 Background of the Study

Hong Kong will be facing accelerated population ageing in the next few decades (Li, 2012). The increasing age profile of Hong Kong residents and increased costs due to advanced medical technologies pose significant challenges to public healthcare spending. The increasingly aged population has increased demand for public healthcare services, resulting in a rapid and substantial boost in public healthcare expenditure (Lieu, 2010). In order to reduce overall public spending on healthcare services, it was proposed that a voluntary supplementary financing scheme, the HPS should be implemented with more protection options available to residents who subscribe to private health insurance and use private healthcare services. Since it was relatively cheap, patients traditionally relied heavily on public healthcare services. However, with increasing consultation and drug fees from public healthcare service providers, and with more choices available, more patients are likely to evaluate their medical coverage and decide whether to stay with their existing healthcare service provider. It seems that only a few studies conducted in the healthcare sector have focused on customer satisfaction, brand preference, switching cost and loyalty, with limited attention paid to Hong Kong (HKSAR Budget, 2012).

1.2 The Healthcare Insurance Industry in Hong Kong

The Office of the Commissioner of Insurance, a Hong Kong government department, regulates all insurance operators in Hong Kong. However, the Hong Kong government recently announced a proposal to establish an Independent Insurance Authority (IIA) to regulate the insurance industry and to ensure consistent regulation. The intention is that the newly proposed IIA will enhance the current regulations resulting in better consumer protection (HKGPIIA, 2011). The Hong Kong government is intending to provide greater protection for its citizen through the proposed HPS. The government has reserved HK\$50 billion to support the scheme (HKSAR Budget, 2012), which together with contributions from residents will become the insurer's operational revenue. This proposed voluntary HPS is in fact private health insurance coverage for individual Hong Kong residents (Lieu, 2010). It is anticipated that with this private health insurance coverage, Hong Kong residents may have the option of choosing doctors and scheduling routine check-ups. Furthermore, policyholders will have more accessibility to higher quality medical services than what is available from public hospitals (Truong, 2012). Insurance companies will not easily forego this opportunity and will try to obtain as big a market share as they possibly can. A better understanding of the relationships among customer satisfaction, brand preference, switching costs and customer loyalty will certainly help

them to enhance their competitiveness and achieve this objective.

2. Literature Review and Hypotheses Development

The following provides a summary of the literature related to customer satisfaction, brand preference, switching cost and customer loyalty in the context of the healthcare industry in Hong Kong.

2.1 Customer Satisfaction

Customer satisfaction is the most important element of marketing. The goal of marketing is to serve business and the goal of most businesses is to provide goods and services to satisfy the needs of customers in return for a profit (Chiu, Hsu, Lai and Chang, 2012). However, to achieve, enhance and maximise customer satisfaction requires a lot of tangible and intangible resources. Before addressing how customer satisfaction serves business, it is important to explore the nature of customer satisfaction and to understand how this concept relates to its antecedents and consequences, as well as how it operates in Hong Kong's healthcare insurance industry.

Customer satisfaction is the key determinant of success in the service industry (Bigne, Sanchez and Andreu, 2009; Bruhn and Georgi, 2006). Satisfaction is achieved when the needs and expectations of customers are met or exceeded. Marketing research on customer satisfaction can be broadly classified into two categories: one focuses on studying the customer satisfaction gaps while the other focuses on the antecedents of customer satisfaction (Kotler and Armstrong, 2010; Nahmens and Ikuma, 2009; Kaplan, Schoder and Haenlein, 2007). The first category of customer satisfaction research is diagnostic in nature, aimed at discovering the service gaps that cause customer dissatisfaction using a wide range of market survey methods (Ramamoorthy, Selladurai and Ranganathan, 2012; Gu and Ryan, 2008). The latter category of customer satisfaction research explores the antecedents and / or consequences of customer satisfaction and the moves to be taken to manage the antecedents so that the best consequences can be realized (Haghighi, Dorosti, Rahnama and Hoseinpour, 2012; Hau and Thuy, 2012; Anderson and Sullivan, 1993). As the ultimate aim of both research categories is to improve and enhance customer satisfaction by providing customer-centric services, the two approaches are in fact complementary instead of mutually exclusive to one another.

2.1.1 Consequences of Customer Satisfaction

The common theme that permeates the discussion of customer satisfaction is how satisfaction affects a customer's purchase intentions and the benefits across the value chain once the intentions are acted upon. Although a plethora of research has been conducted to determine what these benefits are (Yu, 2007), the following three have been recognized as the most notable in the context of service offerings: (1) increased revenue, (2) decreased cost, and (3) lower price elasticity (O'Sullivan and McCallig, 2012; Lewin, 2009; Fornell, 1992). One obvious benefit of higher customer satisfaction is increased revenue (O'Sullivan and McCallig, 2012; Lewin, 2009). It has been found that satisfied customers tend to buy more from providers that they are happy with (Chi and Qu, 2008). Moreover, customers are more likely to give positive comments about the services offered by the providers that they are satisfied with and are more likely to recommend the offering to others who he / she thinks will also benefit (Fornell, 1992). With increased purchases from satisfied customers, as well as additional sales from those who have taken in the satisfied customers' advice, revenue from the sales of the offering will increase (O'Sullivan and McCallig, 2012; Lewin, 2009).

Empirical studies have found that customer satisfaction can decrease transaction cost

146 because satisfied customers have better knowledge about the services provided (O'Sullivan
147 and McCallig, 2012; Lewin, 2009) and therefore would have less demand for both
148 pre-sales and after-sales services. Satisfied customers help spread positive word of
149 mouth and because of their positive evaluations of the services offered and the importance
150 of their efforts on attracting new customers, they play a significant part in reducing the
151 cost of customer acquisition (Lewin, 2009; Fornell, 1992).

152 It is a principle of supply and demand that when price increases, demand reduces.
153 However, studies suggest that when there is an increase in price, high customer
154 satisfaction can decrease price elasticity (Lewin, 2009). In other words, satisfied
155 customers have a higher tolerance towards increased service charges (Fornell, 1992).
156 This is because highly satisfied customers value the relationship with the service providers,
157 perceive higher value and higher quality from the services offered, and therefore perceive
158 higher switching costs towards competitive efforts and have a lower propensity to switch
159 (Edward and Sahadev, 2011).

160

161 *2.1.2 Customer Satisfaction in the Healthcare Insurance Industry*

162 Compared to other services such as financial and tourism, customer satisfaction in the
163 healthcare insurance industry is a much less studied subject despite the size and volume of
164 business of this particular industry (Hellier, Geursen, Carr and Richard, 2003). One
165 possible explanation for this is that the intangible and complex service provided has made
166 the industry relatively difficult to understand and the issue of customer satisfaction
167 particularly challenging to address (Gera, 2011; Hellier et al., 2003). It has been argued
168 that the complaint ratio is an indicator of an insurer's performance and a good measure of
169 customer satisfaction and service quality (Stafford, Stafford and Wells, 1998). Findings
170 from other service industries also suggest that customer complaints can provide invaluable
171 insights as to how business practice and process can be enhanced (Hsu, Kuo and Chien,
172 2012; Kumar, 2010). To satisfy the needs of customer by providing high quality services
173 is a strategy that will lead to higher profitability and revenue growth in almost all kinds of
174 industries; the highly competitive healthcare insurance industry is no exception (Stafford
175 et al., 1998). Customer satisfaction, in the context of this study, is defined as a judgment
176 of a pleasurable level of fulfilment experienced by a healthcare insurance customer in his
177 or her encounters with an insurer. This feeling of fulfilment is measured by a respondent's
178 assessment of his / her purchase decision, i.e., whether the decision is a good or wise one
179 and whether he / she is pleased to have made the purchase (Hellier et al., 2003).

180

181 *2.2 Customer Loyalty*

182 Customer loyalty is a multidimensional (El-Manstrly, Paton, Veloutsou and Moutinho,
183 2011; Oliver, 1999) and centrally important concept in service provision and the
184 formulation of service marketing strategies (Chen and Cheng, 2012; Gallarza, Gil-Saura
185 and Holbrook, 2012). The key management agenda for managers in the service industry
186 is to formulate strategies to raise the level of loyalty of their customers so as to fuel
187 business growth and foster business sustainability (Chen and Cheng, 2012; Keiningham,
188 Aksoy, Cooil and Andreassen, 2008). Customer loyalty increases revenue and reduces the
189 costs of customer acquisition and retention (Rapp, Beitelspacher, Schillewaert and Baaker,
190 2012; Reichheld, 1993).

191

192 *2.2.1 Customer Loyalty in the Healthcare Insurance Industry*

193 To ensure that healthcare insurance service is delivered in the way preferred by customers,
194 the majority of such service offerings are sold through a very complicated insurance
195 agency network. This agent-based customer relationship creates a unique dynamism in the

relationship network (Gera, 2011; Apte and Vepsalainen, 1993) and imposes high standards for the quality of service provided by insurance agents. Insurance firms and their customer-facing employees, i.e., the agents, all claim that they value customer loyalty and recognize the importance of building up solid relationships with the customers (AIA, 2012; Manulife, 2012). The importance they attach to customers' long-term enthusiasm underlines the centrality of customer loyalty defined by Gremler and Brown (1996, p.173) as "the degree to which a customer exhibits repeat purchasing behaviour from a service provider, possesses a positive attitudinal disposition toward the provider, and considers using only this provider when a need for this service arises". Given that it is common practice for insurance companies to review and renew their policy contracts on an annual basis, this study therefore adopts the definition of customer loyalty advanced by Gremler and Brown (1996). The level of customer loyalty is measured by how willing a respondent is to recommend their insurer to their friends and the extent to which a respondent will buy more services from their insurer (Nguyen and Leblanc, 2001). The focus is on the attitudinal perspective of customer loyalty. In other words, only the loyalty intentions of the respondents but not their actual purchase behaviour are measured (Jaiswal and Niraj, 2011).

2.2.2 Customer Satisfaction and Customer Loyalty

Satisfaction is a predictor of customer loyalty as "historically, satisfaction has been used to explain loyalty as behavioural intentions (e.g., the likelihood of repurchasing and recommending)" (Gustafsson, Johnson and Roos, 2005, p.211). Various studies have found that customer satisfaction has a positive influence on customer loyalty in the service industry (Haghighi et al., 2012; Hau and Thuy, 2012; Tong, Wong and Lui, 2012), but the level of influence varies from one study to the other, subject to the type of service concerned. For instance, Tong et al. (2012) studied the banking industry of Hong Kong and revealed that customer satisfaction contributes strongly and positively to customer loyalty with a standardized beta of 0.623. However, the study of Hau and Thuy (2012) on customer satisfaction and customer loyalty relationship in the airline, banking and healthcare services revealed that the levels of influence are on the low side.

Although the differences of impact on the association between customer satisfaction and customer loyalty across different services are in no way negligible, it should be borne in mind that most of the prior studies focused on services characterized by "polygamous" customer loyalty, i.e., the kinds of services where customers display loyalty to a portfolio of firms and purchase different products from different firms (Gee, Coates and Nicholson, 2008; Hobbs and Rowley, 2008). These services are distinct from the healthcare insurance service in that customer loyalty in the latter is largely monogamous. It is unlikely for a customer to buy two similar insurance policies from different insurance companies. When studying the Greek insurance industry, Tsoukatos and Rand (2006) found that customer satisfaction has a direct influence on customer loyalty and service quality is shown to influence customer loyalty through the mediating effect of customer satisfaction. However, a recent survey of healthcare insurance customers in the US, conducted by Accenture Healthcare (Accenture, 2012), revealed that 42% of healthcare insurance customers have a high degree of satisfaction, but only 7% of customers are willing to buy additional services from their insurance providers. To address this apparent discrepancy and to gain a better understanding of the association between customer satisfaction and loyalty in the context of healthcare insurance service in Hong Kong, it was hypothesized that:

Hypothesis 1: Customer satisfaction has a positive direct effect on loyalty in Hong

246 **Kong's healthcare insurance industry.**

247 *2.3 Brand Preference*

248 Branding is an important aspect of marketing is considered to be one of the key success
 249 factors in selling products and services to brand conscious customers (Aaker, 2010;
 250 Alamro and Rowley, 2011; Zablah, Brown and Donthu, 2010). A firm which is capable of
 251 establishing a level of brand preference among its customers enjoys a considerable
 252 competitive advantage over its competitors (Aguirre-Rodriguez, Bosnjak and Sirgy, 2011).
 253 Brand preference has become an important focus in marketing research (Alamro and
 254 Rowley, 2011). Early studies on branding often made no distinction between brand loyalty
 255 and brand preference. McConnell (1968, pp.13-14) asserted that "brand loyalty or brand
 256 preference has most frequently been defined as the consumer's repeat purchase probability
 257 of a particular brand" and that "the strength of brand loyalty is functionally dependent on
 258 the subjective perceived quality of a brand and time". However, Nield and Peacock
 259 (1995, p.105) contradicted the assertion and argued that "there is really no such thing as
 260 brand loyalty, just brand preference". This argument has been backed by many empirical
 261 studies, including that of Ha, John, Janda and Muthaly (2011) who studied the association
 262 between brand loyalty and advertising spending and concluded that customers only have
 263 brand preference but not brand loyalty. Furthermore, on a study of brand preference, Olson
 264 and Thjomoe (2003) argued that customer preference is not linear and that brand
 265 preference will decrease over time. It is therefore important for service providers to
 266 regularly launch advertisement campaigns to maintain the 'exposure effect' so that
 267 customer preference for a brand can be refreshed from time to time.

268 *2.3.1 Brand Preference in the Healthcare Insurance Industry*

269 Despite the above, brand preference in the services industry remain a relatively
 270 underdeveloped research topic. This lack of attention is particularly noticeable in the
 271 context of healthcare insurance (Leung and Young, 2002; Robertshaw, 2011).
 272 Healthcare insurance is an interesting setting for brand research as the reach of the
 273 insurance service is heavily influenced by personal, economic and psychological factors,
 274 the cognitive and thought process of individual customers (Varghese, 2009), as well as the
 275 views and behaviours of their family, friends and acquaintances. As purchase decisions
 276 in healthcare insurance are highly dependent on what potential customers think, perceive
 277 and experience (Keiningham, Perkins-Munn, Aksoy and Estrin, 2005), this study adopted
 278 the definition of brand preference proposed by Hellier et al. (2003) to reflect the tenuous
 279 nature of the industry, and adopted their scales to measure respondents' intention to stay
 280 and their level of satisfaction with their current insurer.

282 *2.3.2 The Influence of Customer Satisfaction on Brand Preference*

283 Branding is of particular importance to the service industry because of the industry's
 284 intangibility and subjectivity in value and quality evaluation (Kotler and Armstrong, 2010).
 285 To develop and enhance customer awareness and hopefully to influence their preference,
 286 the insurance industry has spent heavily on branding initiatives such as intensive customer
 287 engagement through agents, advertisements, brochures and publicity literature, sponsored
 288 programmes, and social media activities (Davis, 2003; Reichheld and Sasser, 1990).
 289 Although high brand awareness is important (Dauvergne and Lister, 2011; Mathur,
 290 Moschis and Lee, 2003), brand recognition can hardly be translated into real sales
 291 opportunities if the customer's actual service experience does not match the strong and
 292 positive brand image projected by the insurer (Davis, 2003; Reichheld and Sasser, 1990).
 293 It is the service or perceived level of service behind the brand that really makes a point of
 294 difference in the industry (Wu, Yeh and Hsiao, 2011; Davis, 2003). In other words, brand

296 preference is driven by customer satisfaction with the services rendered by insurers.
297 Therefore, it was hypothesized that:

298

299 **Hypothesis 2: Customer satisfaction has a positive direct effect on brand**
300 **preference in Hong Kong's healthcare insurance industry.**

301

302 *2.3.3 The Influence of Brand Preference on Customer Loyalty*

303 Unlike customer satisfaction and switching barriers, relatively few prior studies have been
304 conducted to investigate how brand preference explains customer loyalty (Woisetschlager,
305 Lentz and Evanschitzky, 2011).

306 Prior studies have found a correlation between customer brand preference and customer
307 loyalty (Hellier et al., 2003; Oliver, 1999). For example, in studying customer
308 repurchasing behaviour in the insurance industry, Hellier et al. (2003) found that there is a
309 weak but significant correlation between brand preference and customer loyalty. Other
310 studies also suggested that the existence of a causal relationship with brand preference
311 positively affects customer loyalty (Stewart, 2009; Hellier et al., 2003). It is common
312 practice among service providers to use loyalty programs, e.g., frequent buyer discounts,
313 to increase brand preference and to decrease price sensitivity of their customers. Studies
314 have found that loyalty programs, if managed well, can enhance customer loyalty (Mathies
315 and Gudergan, 2012). Both researchers and management practitioners recognize that
316 customer loyalty is an important consequence of brand preference, and so it was
317 hypothesized that the same relationship may also hold in the context of Hong Kong's
318 healthcare insurance industry:

319 **Hypothesis 3: Brand preference has a positive direct effect on customer loyalty in**
320 **Hong Kong's healthcare insurance industry.**

321

322 *2.4 Switching Costs*

323 Switching costs are costs associated with consumers changing from one service provider,
324 one brand or product to another. Switching costs are regarded as one of the easiest
325 strategies to prevent customers from changing to alternative suppliers (Oliver, 2010; Ping,
326 1993). Switching costs can be understood from a theoretical or practical perspective
327 (Jones, Mothersbaugh and Beatty, 2002). Jones et al. (2002, p.441) contended that "from a
328 theoretical standpoint, switching costs represent an important avenue for better
329 understanding and predicting customer retention." One exploration in this direction is
330 the efforts of Dagger and David (2012) in developing a theoretical framework to examine
331 the moderating role of switching costs in the causal relationship between customer
332 satisfaction and loyalty in various service industries. On the other hand, "from a practical
333 standpoint, managing customer perceptions of switching costs to foster retention
334 represents a powerful tactical element in customer loyalty programs" (Jones et al., 2002,
335 p.441). Hsieh, Roan, Pant, Hsieh, Chen, Lee and Chiu (2012, p.315) conducted a study
336 centring on a multiple service channel environment. The aim was to seek empirical
337 evidence and insights as to how switching costs work in the multiple service channel
338 environment of the Taiwan banking industry. They found that, unlike a traditional single
339 channel environment where "switching costs are the perceived economic and
340 psychological costs associated with changing from one firm to another", the dynamics in
341 the multiple distribution channel environment is more complicated, as banking customers
342 can use a combination of ATM, phone banking and Internet banking to handle their bank
343 accounts.

344

345 *2.4.1 Switching Costs in the Healthcare Insurance Industry*

Prior research on switching costs in healthcare insurance revealed that healthcare insurance policy holders, like most other consumers of services, are generally price-conscious (Strombom, Buchmueller and Feldstein, 2002). However, different from consumers of other services, switching decisions in healthcare insurance are complex and depend not only on price, but also on a multitude of personal and other considerations such as age, health risk and health status of the individual policy holder, how customized is the original plan, and whether a change of medical providers will be required if a switch is to be made (Bennett, 2005; Strombom et al., 2002). A study on adverse selection and switching costs in health insurance markets revealed that switching costs in the US health insurance markets were high (Handel, 2011). And a customer's evaluation of how costly is a switch is determined largely by transaction-related indirect costs (Klemperer, 1995). The emphasis given by prior researchers to the importance of transaction-related indirect costs suggests that healthcare insurance is no common commodity. Rather, it is an experience good the value of which is determined not only by the price tag but also the experience of the customer in using the good after purchase (Strombom et al., 2002). For this reason, switching costs, in the context of the current study, is defined as the costs associated with changing supplier, i.e., the transaction costs, the costs of searching for alternative plans, the costs of learning and relationship dissolution and the costs of uncertainty about the quality of a new alternative (Klemperer, 1995).

2.4.2 *The Influence of Customer Satisfaction on Switching Costs*

The influence of customer satisfaction on customer switching behaviour is a well-explored topic (Oliver, 2010). The majority of prior studies found that customer satisfaction can act as an effective switching barrier which prevents existing customers from switching to competitors (Chowdhury, 2011). However, some other studies revealed that satisfied customer also switch (Bigne, et al., 2009). For example, in studying the switching behaviour of subscribers in the mobile communication services industry in Taiwan, Chuang (2011, p.129) concluded that "customers sometimes switch service providers not because they are unsatisfied, but because a competitor offers a lower price or more value-added service". In so far as healthcare insurance is concerned, it is generally considered that the more satisfied is a customer with the service and procedures he / she currently has, the more reluctant is for he / she to switch to another insurer (Nath and Mukherjee, 2012; Strombom et al., 2012). Nevertheless, a research on the effect of quality information on consumer health plan switching in the Minneapolis - St. Paul region (Abraham, Feldman, Carlin and Christianson, 2006) revealed that there is no link between perceived health plan satisfaction and switching. The conflicting results suggest a need to examine the association in other settings. It was hypothesized that:

Hypothesis 4: Customer satisfaction has a positive direct effect on switching costs in Hong Kong's healthcare insurance industry.

2.4.3 *The Influence of Switching Costs on Customer Loyalty*

From a firm's perspective, the primary purpose of switching costs is to stimulate customer loyalty (Edward and Sahadev, 2011). From a consumer's point of view, switching from a familiar service provider to a new service provider costs time, effort and money (Dimitriadis, 2011; Chuang, 2011; Keramati and Ardabili, 2011). Therefore, unless there is a considerable performance gap in service delivery with respect to the current service provider, e.g., a serious service failure which the service provider has failed to recover from or the presence of an aggressive marketing campaign by a competitor, it is unlikely that customers will make a decision to switch lightly (La and Choi, 2012; Chowdhury,

396 2011).

397

398 Prior studies on service generally found that switching costs are a key antecedent of
399 customer loyalty (Ranaweera and Prabhu, 2003). For example, Gremler and Brown
400 (1996, p.174) found that “switching costs can affectively strengthen service loyalty by
401 making it difficult for the customer to go to another provider”. Strong interpersonal
402 relationships are found to have a positive influence on motivation to stay in different
403 contexts, such as frontline services (Kim, Park and Jeong, 2004; Dwyer, Schurr and Oh,
404 1987), small business (Adamson, Chan and Handford, 2003), and business services
405 (Young and Denize, 1995). By analyzing 677 mail survey responses from small-business
406 owners, Coulter and Coulter (2002) found that the firm-level relationship between
407 small-business owners and their insurance providers increased over time; as the duration
408 of relationship increased, the small-business owners established positive perceptions of the
409 insurance firm’s ability to provide customized products, its competence level, and its
410 promptness and reliability. Sine a similar casual relationship may occur in the healthcare
411 insurance industry, it was hypothesized that:

412

413 **Hypothesis 5: Switching costs have a positive direct effect on customer loyalty in**
414 **Hong Kong’s healthcare insurance industry.**

415

416 *2.4.4 The Influence of Switching Costs on Brand Preference*

417 Switching costs play an important role in brand preference. By studying the online
418 brokerage industry, Chen and Hitt (2002) found that customers of different firms exhibit
419 different switching costs and there is some association between customer brand related
420 characteristics, such as product and service design. A substantial amount of research has
421 pointed to the influence of switching costs on preferences, as customers are unlikely to
422 change service providers when switching costs are high (Jones et al., 2002; Oliver, 2010;
423 Ping, 1993). While studying the Portuguese mobile telephone service industry,
424 Grzybowski and Pereira (2011) suggested that switching costs and brand preference are
425 two important factors affecting customer behaviour and that there is a strong association
426 between the two constructs. Since healthcare insurance, online brokerage and mobile
427 telephone services share some common characteristics, such as high intangibility and
428 subjectivity in value and quality evaluation (Kotler and Armstrong, 2010), it was
429 envisaged that the same relationship may also exist in the healthcare insurance industry
430 (Gera, 2011; Kotler and Armstrong, 2010). Therefore, it was hypothesized that:

431

432 **Hypothesis 6: Switching costs have a positive direct effect on brand preference in**
433 **Hong Kong’s healthcare insurance industry.**

434

435 *2.5 Mediating Effects*

436 The customer behaviour literature reveals that satisfied customers have a positive
437 perception of the service providers and the service provided (Alamro and Rowley, 2011;
438 Oliver, 2010). Research findings further direct that brand preference is an intervening
439 variable between customer satisfaction and loyalty (Manrai, 1995; Storbacka, Strandvik
440 and Gronroos, 1994; Sheppard, Hartwick, and Warshaw, 1988). These findings are
441 generally consistent with the study of Hellier et al. (2003), which concluded that customer
442 satisfaction affects repurchase intention indirectly through brand preference. Customer
443 satisfaction enhances a customer’s brand preference, which in turn contributes to customer
444 loyalty (Hellier et al., 2003).

445 To test whether this indirect relationship also holds in the healthcare insurance setting, it

446 was hypothesized that:

447

448 **Hypothesis 7: The influence of customer satisfaction on customer loyalty is**
 449 **mediated by brand preference in Hong Kong's healthcare insurance**
 450 **industry.**

451

452 Prior research found that satisfied customers anticipate higher costs associated with brand
 453 switching and service provider switching (Oliver, 2010; Ping, 1993; Porter, 1980).
 454 Customer satisfaction raises perceived switching costs, which in turn makes satisfied
 455 customers less likely to switch (Chowdhury, 2011; Oliver, 2010; Jones et al., 2002).
 456 Despite empirical evidence suggesting that customer satisfaction has a positive direct
 457 relationship with switching costs, and that switching costs have a positive direct
 458 relationship with brand preference (Hellier et al, 2003), the mediating effect of switching
 459 costs on the relationship between customer satisfaction and customer loyalty has not been
 460 properly explored. To discover if such a mediating effect exists in Hong Kong's
 461 healthcare insurance industry, it was hypothesized that:

462

463 **Hypothesis 8: The influence of customer satisfaction on customer loyalty is**
 464 **mediated by switching costs in Hong Kong's healthcare insurance**
 465 **industry.**

466

467 Customers who perceive higher value of a service will also perceive higher costs
 468 associated with brand switching and service provider switching (Oliver, 2010; Porter,
 469 1980). Hellier et al. (2003) posited that switching costs exert a positive direct influence
 470 on brand preference. Gremler and Brown (1996, p.174) pointed out that "switching costs
 471 can affectively strengthen service loyalty by making it difficult for the customer to go to
 472 another provider". These findings suggest that how the relationship between switching
 473 costs and customer loyalty is mediated by brand preference is not fully understood. It
 474 was hypothesized that:

475

476 **Hypothesis 9: The influence of switching costs on customer loyalty is mediated by**
 477 **brand preference in Hong Kong's healthcare insurance industry.**

478

479 *2.6 Research Model*

480 Based on the above literature review and the nine hypotheses developed, a research model
 481 with four constructs was developed as illustrated in Figure 1 below.

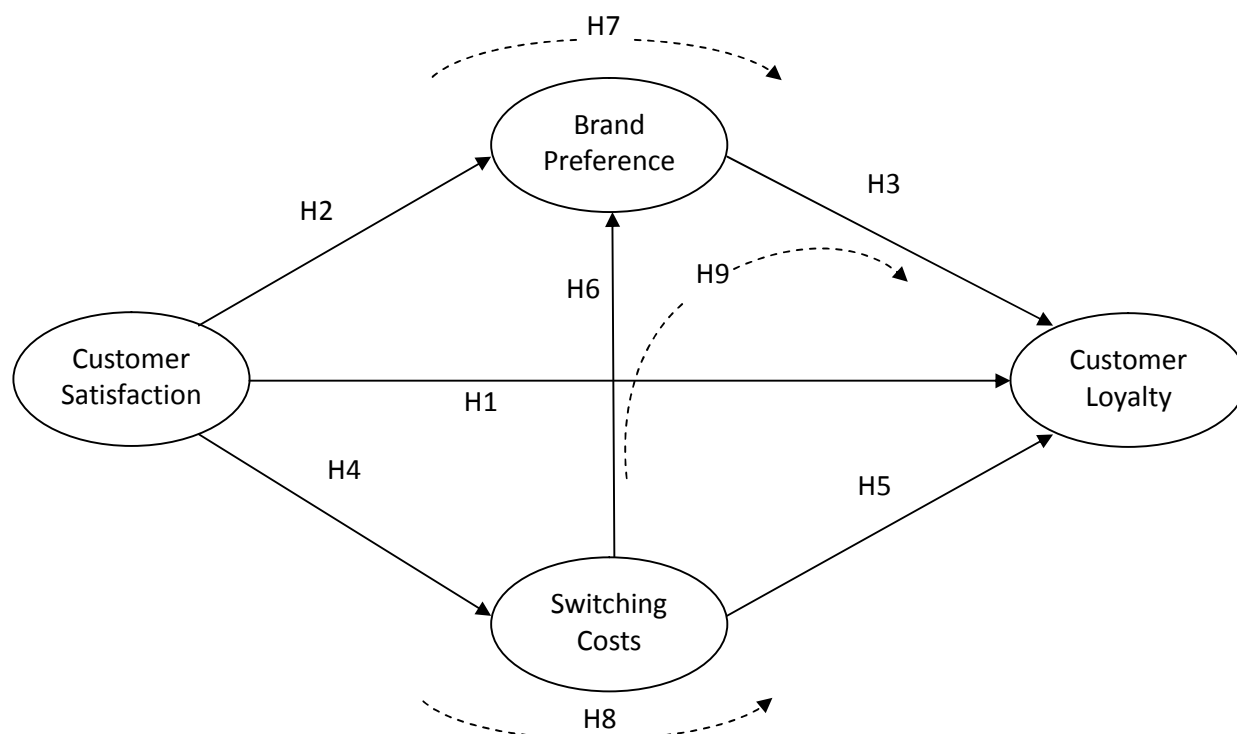


Figure 1 Research Model

Customer satisfaction is the only independent construct and customer loyalty is the only dependent construct in this study. Switching costs and brand preference are the two mediating constructs. The solid lines in Figure 1 indicate direct effects, i.e. H1 to H6, and the dotted lines indicate mediating effects, i.e. H7 to H9.

3. Methodology

3.1 Sample

Samples were randomly selected with the criteria that participants must be aged 18 or above and be current healthcare insurance policyholders in Hong Kong. Potential participants randomly selected on the street were required to help fill in a questionnaire face-to-face with the researcher and return it immediately upon completion. A total of 1,280 potential participants were randomly approached and 516 respondents helped to complete a questionnaire; a 40% (516 / 1,280) response rate was achieved. Finally 511 valid responses were collected.

3.2 Research Instrument

There are four constructs in the conceptual model. They are customer satisfaction, brand preference, switching cost and customer loyalty. A five-section self-administered questionnaire was used for collecting quantitative data: the first four sections collected the perception of healthcare policyholders on customer satisfaction, brand preference, switching cost and customer loyalty, whilst the last section collected demographic data of

the participants.

3.2.1 Measurements for Customer Satisfaction

This research conceptualized customer satisfaction of healthcare insurance customers in Hong Kong as the overall level of customer pleasure and contentment from the experience of the services or products. Customer satisfaction was measured using a three-item adapted from Hellier, Geursen, Carr, and Rickard (2003). Table 1 below shows these questionnaire items, the question ID and the questions relating to ‘customer satisfaction’.

Construct	Item	Questions
Customer Satisfaction	CS1	My decision to purchase healthcare insurance from my current insurer was a wise one.
	CS2	I feel good about my decision to purchase healthcare insurance from my current insurer.
	CS3	I am pleased that I purchased the healthcare insurance from the Company.

Table 1 Measuring Items for Customer Satisfaction (Hellier et al., 2003)

3.2.2 Measurements for Brand Preference

This research conceptualized brand preference of healthcare insurance customers in Hong Kong as the extent to which the customer favors the services provided by their current service providers rather than by others. Brand preference was measured using a three-item adapted from Hellier et al. (2003). Table 2 below shows these questionnaire items, the question ID and the questions relating to ‘brand preference’.

Construct	Item	Questions
Brand Preference	BP1	My current insurer meets my healthcare insurance requirements better than other companies.
	BP2	I am interested in trying healthcare insurance from another company.
	BP3	I intend, in the near future, to replace my healthcare insurance with my current insurer with another company.

Table 2 Measuring Items for Brand Preference (Hellier et al., 2003)

3.2.3 Measurements for Switching Costs

This research conceptualized switching costs as the perception of the magnitude of additional costs (time and effort) incurred by the healthcare insureds in Hong Kong terminating their relationships with their current service providers. Switching costs was measured using a three-item adapted from Ranaweera and Prabhu (2003). Table 3 below shows these questionnaire items, the question ID and the questions relating to ‘switching cost’.

557

Construct	Item	Questions
Switching Cost	SC1	I am concerned about not being able to keep my healthcare insurance product when changing healthcare insurance service provider.
	SC2	Changing healthcare insurance company is costly.
	SC3	Changing healthcare insurance company requires a lot of effort.

565 Table 3 Measuring Items for Switching Cost (Ranaweera and Prabhu, 2003)

566

567 3.2.4 *Measurements for Customer Loyalty*

568 This research conceptualized customer loyalty as the continuation of their healthcare
 569 insurance cover in Hong Kong with their service provider. Loyalty was measured using
 570 a four-item adapted from Nguyen and Leblanc (2001). Table 4 below shows these
 571 questionnaire items, the question ID and the questions relating to 'loyalty'.

572

Construct	Item	Questions
Customer Loyalty	CL1	If I had needed healthcare insurance service now, my current insurer would be my first choice.
	CL2	I will continue to do business with my current insurer.
	CL3	I would recommend my current insurer as the best healthcare insurance service company.
	CL4	I would encourage friends and relatives to do business with my current insurer.

582 Table 4 Measuring Items for Customer Loyalty (Nguyen and Leblanc, 2001)

583

584 3.2.5 *Measure of Demographic Characteristics*

585 Demographic information, such as, gender, age, marital status and education level was
 586 measured using nominal scales. Demographic information assists in establishing the
 587 representativeness to the population.

588

589 3.3 *Data Analysis*

590 The collected data were analyzed by the following quantitative methods.

591

592 3.3.1 *Measurement Assessment*

593 Validity and reliability tests were conducted to evaluate the quality of the collected data
 594 prior to further analysis. Bartlett's test of sphericity and Kaiser-Meyer-Olkin (KMO) test
 595 were conducted to assess the adequacy of sample size. The aforementioned tests were to
 596 ensure that the basic assumptions for further analysis are met (Coakes, Steed and Price,
 597 2008; Hair, Black, Babin, Anderson and Tatham, 2005).

598

599 3.3.2 *Factor Analysis*

600 EFA and CFA were conducted on all variables under the four constructs of the research
 601 model including customer satisfaction, brand preference, switching cost and loyalty to
 602 ensure reliability and validity (Hair et al., 2005; Sharma, 2000).

603 3.3.3 *Structural Equation Modelling (SEM)*

604 Construct reliability and validity were established to reinforce data credibility. SEM
 605 provides measurement model that further sorts-out reliability and validity issues.

Construct reliability and validity were established to reinforce data credibility. This relationship includes the mediating role played by brand preference and switching costs.

4. Findings

4.1 Characteristics of the Sample

Table 5 below shows the characteristics of respondents in respect of gender, marital status, age, and education level. Each of these characteristics are benchmarked and compared with the characteristics of Hong Kong's adult population.

		Respondents		Hong Kong Adult Population	Remarks
		Frequency	Percentage (%)		
Gender:					
	Male	291	56.9 %	45.8 %	
	Female	220	43.1 %	54.2 %	
Marital Status:					
	Married	263	51.5 %	60.4 %	
	Single	198	38.7 %	28.8 %	
	Other	50	9.8%	10.8 %	
Age:					
	18 – 24	60	11.7 %	10.4 %	
	25 – 34	136	26.6 %	18.1 %	
	35 – 44	125	24.5 %	18.9 %	
	45 – 54	117	22.9 %	21.5 %	
	55 – 64	45	8.8 %	15.4 %	
	65 or above	28	5.5 %	15.7 %	
Education Level:					
	Secondary or below	170	33.3 %	72.5 %	
	Non-degree Diploma	85	16.6 %	7.6 %	
	Undergraduate Degree	127	24.9 %	19.8 %	
	Postgraduate Degree	129	25.2 %		

Table 5 Demographic Profile of Valid Respondents (n = 511)

4.2 Exploratory Factor Analysis on Mediators

Exploratory factor analysis was also performed on mediating factors using the procedures proposed by Guo and Harris (2000). The purpose of the analysis was to check whether each of the mediating factor items was loaded to the two mediators as predicted. Table 6 below shows the Bartlett's test of sphericity and KMO test results (Hair et al., 2005). The KMO Measure of Sampling Adequacy was 0.793, higher than the minimum acceptable level of 0.7 (Nunnally, 1978). The Bartlett's test of sphericity yielded an approximate Chi-square value of 1,502.862, with 15 degrees of freedom and was significant ($p = 0.000$). The results from the two tests indicated that the questionnaire items for switching costs and brand preference were suitable for exploratory factor

628 analysis.
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Kaiser-Meyer-Olkin Measure of Sampling Adequacy.		0.793
Bartlett's Test of Sphericity	Approx. Chi-Square	1,502.862
	Df	15
	Sig.	0.000

630 Table 6 KMO and Bartlett's Test on Mediators' Measuring Items (n = 511)
631

632 The following two tables below show the exploratory factor analysis results on the
633 measuring items for the two mediators. As shown in Table 7, the exploratory factor
634 analysis yielded two components with eigenvalue greater than 1.0 and explained a total of
635 76.114% of the variance. As shown in Table 8, each of the measuring items was found
636 loaded into their corresponding underlying components as expected, with a factor loading
637 higher than 0.7. The two components extracted were named brand preference
638 (component 1) and switching costs (component 2).
639

Component	Initial Eigenvalues			Rotation Sums of Squared Loadings		
	Total	% of Variance	Cumulative %	Total	% of Variance	Cumulative %
1	3.374	56.234	56.234	2.408	40.137	40.137
2	1.193	19.880	76.114	2.159	35.977	76.114
3	.555	9.243	85.357			
4	.343	5.712	91.069			
5	.333	5.554	96.623			
6	.203	3.377	100.000			

640 Extraction Method: Principal Component Analysis.

641 Table 7 Total Variance Explained (n = 511)
642

Questionnaire Items	Component	
	1	2
BP1: My current insurer meets my healthcare insurance requirements better than other companies.	0.809	
BP2R: I am interested in trying healthcare insurance from another company.	0.905	
BP3R: I intend, in the near future, to replace my healthcare insurance with my current insurer with another company.	0.893	
SC1: Changing healthcare insurance company is costly.		0.739
SC2: I am concerned about not being able to keep my healthcare insurance product when changing healthcare insurance service provider.		0.840
SC3: Changing healthcare insurance company requires a lot of effort.		0.867

643 Remarks: Extraction Method: Principal Component Analysis.

644 Rotation Method: Varimax with Kaiser Normalization.

645 Rotation converged in 3 iterations.

646 Table 8 Exploratory Factor Analysis on Mediators' Measuring Items (n = 511)

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4.3 Measurement Model

Prior to hypotheses testing using a structural model, a measurement model was built to confirm the factor structure of the four constructs being studied in order to discover correlations among the constructs and to find the standardized factor loading of each questionnaire items to its corresponding construct (Jackson, Gillaspay Jr. and Purc-Stephenson, 2009; Paill, Morin and Grima, 2011). Table 9 below summarizes the model fit indices of the measurement model. Although the chi-square statistic was 263.310 with 59 df ($p = 0.000$), giving a normal chi-square ratio of 4.463, which was higher than the desired level of less than 2, it was still lower than the maximum acceptable level of 5 (Camps, Alegre and Torres, 2011; Jackson, Wall, Martin and Davids, 1993). The fit indices shown a good fit to the data with a GFI value of 0.931 and CFI value of 0.962, both of them were higher than 0.9 (Dongjin, Shenghui and Kai, 2008). The RMSEA value was 0.082, which was less than the maximum acceptable value of 0.1 (Henson and Northen, 2000). In conclusion, the model fit indices yielded from various tests indicated that the measurement model had adequate reliability and the questionnaire items and the constructs were having good validity (Camps et al., 2011; Jackson et al., 2009; Paill et al., 2011).

Model	CMIN	DF	P	CMIN/DF	GFI	CFI	RMSEA
Default model	263.310	59	.000	4.463	.931	.962	.082
Saturated model	.000	0			1.000	1.000	
Independence model	5407.477	78	.000	69.327	.207	.000	.366

Table 9 Model Fit Indices of the Measurement Model

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As shown in Table 10 and by Figure 2, the factor loadings for customer satisfaction were in the range between 0.849 and 0.891 (significant at $p < 0.001$), the factor loadings for switching costs were in the range between 0.675 and 0.805 (significant at $p < 0.001$), the factor loadings for brand preference were in the range between 0.771 and 0.899 (significant at $p < 0.001$) and the factor loadings for customer loyalty were in the range between 0.874 and 0.885 (significant at $p < 0.001$). All the factor loadings exceeded the minimum acceptable limit of 0.6, indicating that all constructs were having high individual item reliability (Hair et al., 2005).

			Estimate	P
CS1	<---	Customer Satisfaction	0.849	***
CS2	<---	Customer Satisfaction	0.891	***
CS3	<---	Customer Satisfaction	0.888	***
SC1	<---	Switching Costs	0.675	***
SC2	<---	Switching Costs	0.791	***
SC3	<---	Switching Costs	0.805	***
BP1	<---	Brand Preference	0.771	***
BP2R	<---	Brand Preference	0.868	***
BP3R	<---	Brand Preference	0.899	***
CL1	<---	Customer Loyalty	0.875	***
CL2	<---	Customer Loyalty	0.878	***
CL3	<---	Customer Loyalty	.885	***

CL4	<---	Customer Loyalty	.874	***
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Remarks: ***: $p < 0.001$

Table 10 Standardized Factor Loadings in the Measurement Model (n = 511)

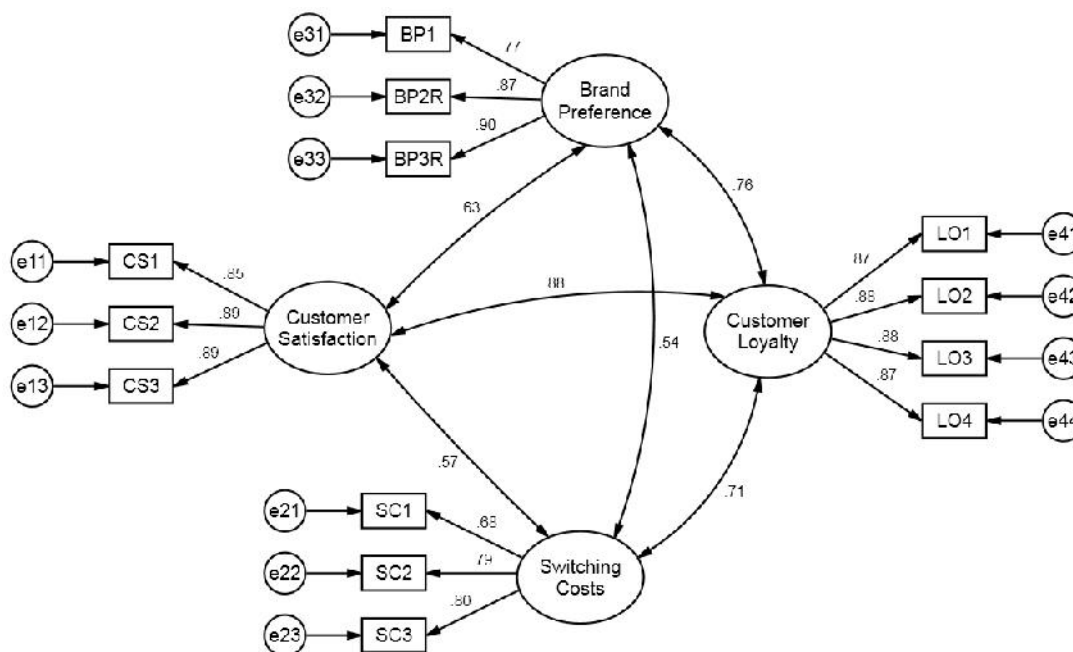


Figure 2 Measurement Model

After confirming the reliability and validity of the questionnaire items and the constructs, Cronbach's alpha test was used to test the internal consistency of each of the constructs. Table 11 below summarizes the reliability statistics of the four constructs. The Cronbach's alpha coefficients of the four constructs of consumer satisfaction, switching costs, brand preference and customer loyalty were 0.907, 0.797, 0.880 and 0.931 respectively, all of them were higher than the acceptable level of 0.7 (Coakes et al., 2008; Nunnally, 1978). The composite reliability statistics for the four constructs were in the range between 0.802 and 0.931; all exceeded the acceptable limit of 0.8 (Hair et al., 2005; Nunnally, 1978). The average variance extracted (AVE) statistics for the four constructs were in the range between 0.576 and 0.771, all of them exceeded 0.5, meaning the questionnaire items for each of the constructs explained more variance than that caused by measurement error (Hair et al., 2005; Nunnally, 1978).

Construct	Cronbach's Alpha	Composite Reliability	AVE
Consumer Satisfaction	0.907	0.908	0.768
Switching Costs	0.797	0.802	0.576
Brand Preference	0.880	0.884	0.719
Customer Loyalty	0.931	0.931	0.771

Table 11 Reliability of the Four Constructs (n = 511)

4.4 Structural Model

After confirming the quality and reliability of the questionnaire items and the four constructs, the research model were then tested by a structural model using AMOS 18 with the maximum likelihood estimation method. As shown in Table 12, the chi-square statistic was 263.310 with 59 df ($p = 0.000$), giving a normal chi-square ratio of 4.463, which was lower than the maximum acceptable level of 5 (Camps et al., 2011; Jackson et al., 1993). The fit indices shown a good fit to the data with a GFI value of 0.931 and CFI value of 0.962, both of them were higher than 0.9 (Dongjin et al., 2008). The 0.082 RMSEA value shows a good fit to the data (Henson and Northen, 2000). In conclusion, the model fit indices signified a good model fit (Camps et al., 2011; Jackson et al., 2009; Paill et al., 2011).

Model	CMIN	DF	P	CMIN/DF	GFI	CFI	RMSEA
Default model	263.310	59	.000	4.463	.931	.962	.082
Saturated model	.000	0			1.000	1.000	
Independence model	5407.477	78	.000	69.327	.207	.000	.366

Table 12 Model Fit Indices of the Structural Model

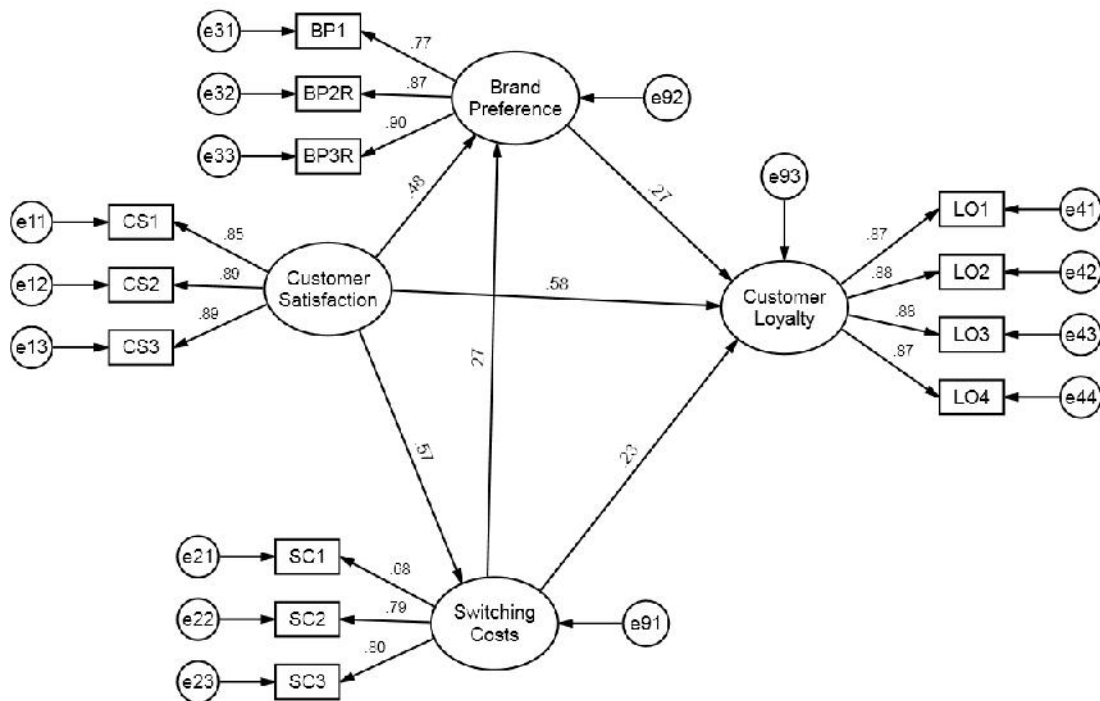


Figure 3 Structural Model

4.4.1 Direct Effects

Figure 3 above presents the structural model with standardized loading. Table 13 below shows the structural path with unstandardized estimations, significant level (p value) and standardized estimations generated by AMOS 18. The predicted positive direct influence of customer satisfaction on customer loyalty (H1) was supported by the significant ($p < 0.001$) standardized estimation of 0.584. The predicted positive direct influence of customer satisfaction on brand preference (H2) was supported by the significant ($p < 0.001$) standardized estimation of 0.476. The predicted positive direct influence of brand

729 preference on customer loyalty (H3) was supported by the significant ($p < 0.001$)
 730 standardized estimation of 0.273. The predicted positive direct influence of customer
 731 satisfaction on switching costs (H4) was supported by the significant ($p < 0.001$)
 732 standardized estimation of 0.568. The predicted positive direct influence of switching
 733 costs on customer loyalty (H5) was supported by the significant ($p < 0.001$) standardized
 734 estimation of 0.227. The predicted positive direct influence of switching costs on brand
 735 preference (H6) was supported by the significant ($p < 0.001$) standardized estimation of
 736 0.267.

737

Hypothesis	Path From	Path To	Unstd. Regression Weights		Standardized Regression Weights
			Estimate	P	
H1	Customer Satisfaction	Customer Loyalty	0.616	***	0.584
H2	Customer Satisfaction	Brand Preference	0.420	***	0.476
H3	Brand Preference	Customer Loyalty	0.326	***	0.273
H4	Customer Satisfaction	Switching Costs	0.444	***	0.568
H5	Switching Costs	Customer Loyalty	0.306	***	0.227
H6	Switching Costs	Brand Preference	0.301	***	0.267

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*** : significant at $p < 0.001$

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Table 13 Unstandardized and Standardized Regression Weights

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4.4.2 Mediating Effect

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The structural model consists of two mediators and three mediating paths. The two mediators, i.e. switching costs and brand preference, have their respective mediating effects on the relationship between customer satisfaction and customer loyalty. In other words, other than a direct influence, there are two mediating paths influencing the relationship between customer satisfaction and customer loyalty. Meanwhile, the influence of switching costs on customer loyalty consisted of both direct and indirect effects. The indirect effects are mediated by brand preference.

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In order to separate the three indirect effects in the structural model and to test the respective level of significance of each of the mediating effects, this study adapted the methods proposed by Mallinckrodt, Abraham, Wei and Russell (2006). Similar to Mallinckrodt et al (2006), the bias-corrected bootstrap method with 95% confidence intervals was used and a total of 1,000 bootstrap samples were generated by AMOS.

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Table 14 shows the respective mediating effects of switching costs and brand preference on the relationship between customer satisfaction and customer loyalty, as well as the mediating effects of brand preference, on the relationship between switching costs and customer loyalty.

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Hypothesis	Independent Variable(s)	Mediating Variable(s)	Dependent Variable(s)	Effect	Sig. #	Result
H7	Customer Satisfaction	Brand Preference	Customer Loyalty	0.130	0.001	Supported
H8	Customer Satisfaction	Switching Costs	Customer Loyalty	0.129	0.002	Supported
H9	Switching Costs	Brand Preference	Customer Loyalty	0.07	0.001	Supported

: significant levels were based on bootstrapping techniques with 1,000 bootstrap samples

Table 14 Mediating Effects

The bias-corrected bootstrap test results summarized in Table 14 confirm that brand preference and switching costs significantly and partially mediate the casual relationship between customer satisfaction and customer loyalty. Brand preference was found to play a partial, but significant, mediating role in the influence of customer satisfaction on customer loyalty (Mediating Effect = 0.130; $p = 0.001$), giving support to H7. Switching costs was also found to play a partial, but significant, mediating role in the influence of customer satisfaction on customer loyalty (Mediating Effect = 0.129; $p = 0.002$), giving support to H8. Table 14 also confirmed that the influence of switching costs on customer loyalty was partially mediated by brand preference. The mediating effect was weak (0.07) but significant at $p = 0.001$ level, giving support to H9.

5. Discussion

Customer satisfaction is generally considered an important predictor of customer loyalty in the service industry (Gustafsson et al., 2005; Haghighi et al., 2012; Hau and Thuy, 2012; Tong et al., 2012). This study reveals the same despite the original doubt that different findings might be yielded due to the unique nature of the healthcare insurance industry (Accenture, 2012; Tsoukatos and Rand, 2006). The perceived level of customer satisfaction explained a considerable amount of variance of customer loyalty with a standardized regression weight of 0.584 and significant ($p = 0.000$). This study confirms that satisfied customers develop brand preference toward insurers from which satisfactory services originate. The perceived level of customer satisfaction explained a considerable amount of variance of brand preference with a standardized regression weight of 0.476 and significant ($p = 0.000$). Although relatively few prior studies have been conducted to investigate how brand preference explains customer loyalty (Woisetschlager et al., 2011), these studies did suggest the existence of correlations between customer brand preference and customer loyalty (Hellier et al., 2003; Oliver, 1999). This study reveals that brand preference is a significant antecedent of customer loyalty in Hong Kong's healthcare insurance industry. The perceived level of brand preference explained a notable amount of variance of customer loyalty with a standardized regression weight of 0.273 and significant ($p = 0.000$). The influence of customer satisfaction on customer switching behaviour was well-explored in prior studies (Oliver, 2010). This study reveals that a satisfied customer perceives considerable switching costs to his or her current healthcare insurance service provider. The perceived level of customer satisfaction explained a considerable amount of variance of switching costs with a standardized regression weight of 0.568 and significant ($p = 0.000$). This study confirms that switching costs are a significant antecedent of customer loyalty in Hong Kong's healthcare insurance industry.

The perceived level of switching costs explained a notable amount of variance of customer loyalty with a standardized regression weight of 0.227 and significant ($p = 0.000$). There is little research that specifically addresses the causal relationship between switching costs and brand preference in the healthcare insurance service. However, studies from other services found that switching costs play an important role in brand preference (Chen and Hitt, 2002; Jones et al., 2002; Oliver, 2010; Ping, 1993). This study extends the knowledge base in this area by providing empirical evidence on the positive impact of switching costs on brand preference in the healthcare insurance industry in Hong Kong. The perceived level of switching costs explained a notable amount of variance of brand preference with a standardized regression weight of 0.267 and significant ($p = 0.000$). To the best knowledge of the researcher, no prior study has been done on the mediating role of brand preference on the causal relationship between customer satisfaction and customer loyalty in the healthcare insurance industry. This study fills the research gap by investigating whether such a mediating effect exists in Hong Kong's healthcare insurance industry, and if yes, the level of influence. This study reveals that brand preference significantly mediates the relationship between customer satisfaction and customer loyalty in Hong Kong's healthcare insurance industry. This study seeks to extend the research by confirming the existence of a mediating effect of switching costs on the relationship between customer satisfaction and customer loyalty in Hong Kong's healthcare insurance industry, and by assessing the relative significance of the influence. This study reveals that switching costs significantly mediates the relationship between customer satisfaction and customer loyalty in Hong Kong's healthcare insurance industry. The level of the mediating effect is 0.129 and significant at the level of 0.002. This study sought to fill this gap by investigating the existence and the significance of the mediating effect in Hong Kong's healthcare insurance industry. It is revealed from findings of this study that the mediating effect of brand preference on the relationship between switching costs and customer loyalty is weak (mediating effect = 0.07) but significant ($p = 0.001$), giving support to the hypothesis that "the influence of switching costs on customer loyalty is mediated by brand preference in Hong Kong's healthcare insurance industry".

6. Limitations and Future Research

While this study contributes to the body of knowledge of consumer behaviour, it is not without its limitations. The use of a positivism paradigm, which assumes the existence of a single tangible reality, and the reliance of the study on quantitative research methods, imposed the first limitation on the study. As there may be other variables that affect the hypothesized relationships, further studies using qualitative methods are recommend exploring the existence of other variables that may influence the causal relationship between customer satisfaction and customer loyalty and exploit the interplay among the variables. Generalizability of the findings imposed the second limitation on the study. Although the large sample size ($n = 511$) adds to the quality of the study, all data were collected from healthcare insurance policyholders in Hong Kong. The finding of this study may therefore only reflect the perceptions of that particular group of people. The industry-specific and single culture sample frame may limit the applicability of the findings of this study to other services, other settings, or services or settings in other geographical locations. Further studies are recommended to ascertain the generalizability of the findings. The third limitation is the non-probability sampling technique used in the study. As on-street interviews were used, only those people who were on the street when the researcher was there had a chance to be selected. In other words, a portion of the

population missed the chance to be selected and surveyed. A study with a larger sample size which uses the quota sampling technique should be conducted to confirm the findings of this study. With a quota sampling technique, which segments the population into subgroups, it will be possible to match the number of respondents with the demographic profile of Hong Kong's general population. Within each segment, a probability random sampling technique can be used to yield better results.

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