Electronic and Traditional Word of Mouth as Trust Antecedents in Life Insurance Buying Decisions

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ABSTRACT

This research was conducted to examine the effects of electronic word of mouth (eWOM) and traditional word of mouth (tWOM) on the level of consumers’ trust in deciding to buy life insurance products in Indonesia. It involved 430 respondents who were online community members in two of Indonesia’s largest cities; Jakarta and Surabaya. Surprisingly, this study found that eWOM was a more dominant predictor than tWOM in influencing trust. The other research result is that the trust variable influences consumers’ buying decisions in positive and significant ways. This research recommends that managements of life insurance companies should build promotion policies based on trust so that the consumer decision level to buy life insurance products increases. The trick is for company management to identify and develop practices that improve the roles of positive eWOM and tWOM, so as to increase the level of consumers’ trust to buy.

KEYWORDS

Buying Decision, Electronic Word of Mouth, Life Insurance, Trust

INTRODUCTION

Large market potential must be balanced with an effective marketing strategy. In the rapidly evolving era of information technology today, companies must be able to penetrate the market by maximizing the role of information technology. Recently, various marketing strategies using information technology have developed very rapidly, such as in the form of the electronic media of word of mouth, commonly referred to as eWOM (Allsop et al., 2007; Christodoulides et al., 2012). According to Hennig-Thurau et al. (2004), the service industry is very dependent on word of mouth (WOM) because the nature of service cannot be consumed directly in the beginning. Service consumers do not feel the immediate benefits at the time of buying (Zeithaml, 1981). Hence, consumers need information from other consumers who have experience consuming the services (Buttle, 1998; Bayus, 1985). One of the ways to disseminate this information is through electronic word of mouth (eWOM) (Hennig-Thurau et al., 2004). According to Hennig-Thurau et al. (2010) and Shin et al. (2014), eWOM is a positive or negative statement made by one customer to another customer about the performance of a product or company via online media. A customer statement may be positive or negative depending on the level of experience during the interaction with the service or the service provider company. When the eWOM conveyed is positive, the company will benefit from the information. Otherwise, it will be
impaired when negative eWOM is delivered by the consumer (Hennig-Thurau et al., 2004). According to Matute et al. (2016) and Prasad et al. (2017), eWOM plays a very significant role in the level of customer trust when deciding to buy a service product.

One of the service businesses currently developing in Indonesia is the life insurance business. Over the last ten years, this business has seen a significant increase in premium income. The average increase in premiums in the period from 2005 to 2015 was 9% (OJK, 2016). However, an increasing premium was occurred in period of 2015-2016. In 2015 was reported the total premium of US$10.2 million, and in 2016 was reported the total premium of US$12.9 million, it increased up to 26% (OJK, 2016). The increasing amount of premiums was also offset by an increase in the number of life insurance companies. In 2011, there were 45 insurance companies in Indonesia. In 2016, the number of insurance companies increased to 52 (OJK, 2016). However, the increase was still less significant when viewed from the level of consumer participation in buying life insurance products, which was only US$54 per person per year. This is not comparable with the huge population of Indonesia, which is approximately 240 million people (BPS, 2010). Therefore, further research is necessary to reveal the factors that influence decisions to buy life insurance services in Indonesia.

The enormous market potential must be managed using appropriate strategies (Christodoulides et al., 2012; Lee & Youn, 2009). One approach is using various media including online media (Lee & Youn, 2009; Pool et al., 2016). According to Christodoulides et al. (2012), various online media, such as What’s App (WA), Instagram, Facebook, email and so forth, can be used to market products. Meanwhile, according to Bachleda & Berrada-Fathi (2016) and Shin et al. (2014), in the online era, eWOM is a very effective method for marketing services when compared to traditional word of mouth (WOM) in terms of the breadth and ease of reach. Richins (1984) defined tWOM is a form of communication using proximity (face to face). tWOM promotes face to face communications for sharing positive or negative information about experiences related to goods, services, and producers (Richins, 1984). On the contrary, eWOM is a form of communication using internet media, for example email and social media, to share positive or negative information about experiences related to goods, services, and producers (Hennig-Thurau et al., 2004).

Various studies in the field of services exploring eWOM and consumers’ decisions about buying services have explored various aspects. For example, Matute et al. (2016) examined the effect of eWOM on trust in buying online services. Likewise, Prasad et al. (2017) also examined the effect of eWOM on decisions to use the provisioning facilities of web media services. Other studies on tWOM, such as Lin and Lu (2010), have investigated the roles of tWOM in the field of hospital services. Furthermore, Jalilvand et al. (2017) studied the association of tWOM with trust in the hospitality service field.

However, no previous research has examined the simultaneous effects of eWOM and tWOM on consumers’ buying decisions with respect to the variable of trust in the service sector. For example, although the studies of Matute et al. (2016) and Prasad et al. (2017) discussed the effect of eWOM on service buying decisions, they did not address specific tWOM variables, particularly their roles in buying decisions. Similarly, while Lin and Lu (2010) and Jalilvand et al. (2017) did examine buying decisions in terms of tWOM, they never specifically discussed the influence of eWOM variables on service buying decisions. In another study, Husin et al. (2016) also reported on life insurance. However, they only discussed buying decisions in terms of mass media and the variable of tWOM, without addressing the role of eWOM. Therefore, this study contributes theoretically to fill the gaps that have not been studied previously. This study explores the effects of eWOM and tWOM as predictors of trust in decisions to purchase life insurance services in Indonesia.

Our findings can serve as a reference to life insurance companies preparing promotional strategies to achieve market penetration. In addition, the findings are useful for life insurance marketers hoping to improve their services for customers and prospective customers so that large market potential can be managed maximally.
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