

Customer Retention in Life Insurance: A Conceptual Integration of Service-Dominant Logic and Subjective Expected Utility

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ABSTRACT

Purpose: Existing life insurance customer retention frameworks mostly use relational perspectives or economic decision-making models, which offer limited explanation of how customer engagement processes translate into retention decisions under uncertainty. Addressing this gap, this study integrates Service-Dominant Logic (SDL) and Subjective Expected Utility (SEU) theory to explain how co-production affects customer retention through trust and loyalty. This model incorporates co-production and customers' subjective evaluation of long-term retention decisions.

Design/methodology/approach: Using a conceptual research design, this study synthesizes literature to integrate SDL and SEU theories. This integration forms a unified framework, which in turn provides the foundation for the developed propositions.

Findings: The conceptual synthesis identifies co-production, trust, and loyalty as the central mediators of customer retention. These constructs form a bridge between SDL's relational perspective and SEU's calculus for decision-making under uncertainty.

Originality: This paper pioneers a novel theoretical integration by triangulating Service-Dominant Logic (SDL) and Subjective Expected Utility (SEU) theory to re-conceptualize policyholder retention. This synthesis addresses a foundational gap, bridging the relational focus of SDL with the cognitive calculus of SEU to provide a more complete explanation of retention drivers.

Implications: By providing a clear pathway for empirical validation, this framework delivers dual value: it advances theoretical discourse on customer retention while equipping insurers with actionable strategies.

Keywords:

Co-production, Customer Loyalty, Customer Retention, Life Insurance, Service Dominant Logic (SDL), Subjective Expected Utility Theory (SEU), Trust

Introduction

Customer retention has emerged as a main task in the life insurance industry, as insurers seek to maintain profitability, reduce acquisition costs, and maintain long-term life insurance policyholder (customer) relationships. Retention refers to the continued maintain of insurance policies by policyholders through regular premium payments and contract renewal, ensuring stability and resilience for both insurers and customers (Dawkins & Reichheld, 1990; Eling & Kiesenbauer, 2013). By contrast, policy discontinuation challenges financial security, disrupts capital flows, and elevates costs, making the management of retention one of the most pressing challenges in

contemporary insurance practice (Ruefenacht, 2018; Yu & Tseng, 2016). The ability to retain customers has therefore become a key factor in competitiveness, particularly in developing economies such as Sri Lanka, where penetration levels remain low and nearly half of issued policies are discontinued within a few years (IRCSL, 2023).

Traditional explanations of retention and discontinuation behavior of life insurance have often been grounded in economic models such as the Emergency Fund Hypothesis (EFH), the Interest Rate Hypothesis (IRH), and the Policy Replacement Hypothesis (PRH), which highlight the role of macroeconomic conditions like interest rates, liquidity, and unemployment (Dar & Dodds, 1989; Eling & Kiesenbauer, 2013; Kim, 2005). While these perspectives offer useful insights, they overlook important organizational and behavioral dimensions, including how customer participation, relational trust, and loyalty mechanisms influence long-term retention. In high-involvement, credence-based services such as life insurance, these relational dynamics are particularly critical for sustaining customer commitment (Nguyen & Mutum, 2012; Ruefenacht, 2018).

Although marketing research consistently confirms the importance of trust and loyalty in predicting customer retention (Harris & Goode, 2004; Morgan & Hunt, 1994), their interaction with co-production the active involvement of customers in designing and managing their policies remains underexplored in the insurance context. This gap is particularly salient in life insurance, where insurers typically recover acquisition costs only after several years and customer loyalty is shaped by the industry's long-term, intangible, and trust-intensive nature (Zeithaml et al., 1996; Crosby & Stephens, 1987; Guillen et al., 2008).

The theoretical foundation for this study is grounded in Service-Dominant Logic (SDL) (Vargo & Lusch, 2004) and Subjective Expected Utility (SEU) Theory (Savage, 1954; Fishburn, 1970). SDL emphasizes customer involvement as a key resource in value co-creation, framing co-production as a critical mechanism for enhancing loyalty and trust. In parallel, SEU explains how customers make decisions under uncertainty, balancing subjective probabilities and expected outcomes in the face of long-term financial commitments. Integrating SDL and SEU provides a holistic lens: SDL highlights the relational processes that sustain engagement, while SEU explains the decision-making logic supporting retention choices in uncertain environments.

Despite significant life insurance customer retention research, frameworks remain theoretically fragmented. Prior research has mostly used economic and rational-choice explanations for policy continuance and lapse behavior, while others have focused on trust, satisfaction, and loyalty. These methodologies are often analyzed in isolation and fail to explain how relational engagement activities, particularly customer co-production, affect retention decisions under long-term uncertainty. Such contexts require customers to form subjective expectations based on insurer relationships. Key gaps in customer retention literature include the lack of an integrated theoretical lens that incorporates value co-creation processes and customers' subjective decision-making rationale. To fill this gap, this study uses Service-Dominant Logic (SDL) and Subjective Expected Utility

(SEU) theory to explain life insurance customer retention through co-production, trust, and loyalty.

The structure of this paper is organized as follows. Section 2 presents the literature review, outlining the key constructs relevant to customer retention. Section 3 explains the theoretical background. Section 4 develops the propositions and conceptual framework, highlighting the interrelationships among the main constructs. Section 5 discusses the theoretical and managerial implication. Finally, Section 6 presents the conclusion, summarizing key insights and proposing avenues for future research.

Literature Review

Customer Retention

Customer retention refers to the strategic process of maintaining long term relationships with customers by fostering loyalty and encouraging them to repeatedly purchase products or services from a specific brand over time (Ruefenacht, 2018; Yu & Tseng, 2016). . It is a critical business strategy that not only sustains customer relationships but also offers economic benefits, as retaining existing customers is less costly than acquiring new ones (Dawkins & Reichheld, 1990; Eling & Kiesenbauer, 2013). Retention efforts are significantly influenced by factors such as trust, perceived value, and the overall customer experience, particularly in service industries like insurance (Cannie, 1994; Danish et al., 2015).

According to Rajeh (2018) and Hanaysha (2018), trust, perceived value, and customer loyalty drive retention beyond economic factors. Strong relational relationships boost client loyalty, diminish switching intents, and stabilize income streams in competitive service and financial industries (Coviello et al., 2001; Yim, 2004). Therefore, relationship marketing emphasizes prolonged contacts and value creation to build long-term customer relationships (Hanaysha, 2018).

In the life insurance context, customer retention is shaped by satisfaction, trust, and the quality of interactions with the insurer, given the long-term and intangible nature of insurance contracts (Morgan & Hunt, 1994; Yu & Tseng, 2016). From a decision-theoretic perspective, Subjective Expected Utility (SEU) theory suggests that customers continue insurance relationships when the perceived benefits of staying outweigh the expected costs under uncertainty (Savage, 1954). As policy outcomes are delayed and difficult to evaluate, trust in the insurer's reliability and ethical conduct becomes central to sustaining retention decisions over time (Malhotra, 2022; Ruefenacht, 2018).

Co-Production

Co-production refers to the constructive participation of service firms and customers in the creation and delivery of value, thereby requiring substantial contributions from both parties (Auh et al., 2007). Service providers and customers must collaborate to create and deliver value (Wu et al., 2020). Based on Service-Dominant Logic, co-production

considers consumers as resource integrators who improve service customization, relationship quality, and value creation (Vargo & Lusch, 2008; Grönroos, 2008).

In financial and credence-based services such as life insurance, customers are often more engaged with service processes than observable outcomes, making co-production particularly salient (Karantinou & Hogg, 2009). Through active participation in policy design, information sharing, and service interactions, customers develop stronger expectations regarding service quality and relationship outcomes, which influence satisfaction and perceived fairness (Stokburger-Sauer et al., 2016; Dargahi et al., 2021).

Prior research demonstrates that co-production positively influences service quality, customer loyalty, and retention, particularly in life insurance, where customer involvement strengthens customer-agent relationships and reduces policy lapsation (Ruefenacht, 2018; Wu, 2017). However, effective co-production depends on balanced contributions, clear communication, and appropriate resource allocation from both parties (Auh et al., 2007; Etgar, 2008). Excessive involvement may increase perceived effort and dissatisfaction if expected benefits are not realised, highlighting the importance of trust in sustaining positive co-production outcomes (Haumann et al., 2015; Wu & Wang, 2022).

In financial services, customer participation not only enhances efficiency but also builds attitudinal loyalty through meaningful engagement in service creation and delivery (Auh et al., 2007). However, the mixed outcomes associated with co-production suggest a need for further research to optimize its application across various service contexts (Chan et al., 2010).

Customer Loyalty

Customer loyalty is defined as a deep commitment to repurchase a product or service, reflecting both a psychological attachment and a behavioral intention towards a brand (Cossío-Silva et al., 2016; Idrees et al., 2015;). This loyalty plays a crucial role in fostering sustainable growth, enhancing profitability, and providing a competitive advantage (Bhat et al., 2022; Shafiee & Bazargan, 2018). Loyal customers not only make repeat purchases but also actively advocate for the brand, reducing the need for extensive marketing efforts (Oliver, 2010; Sirdeshmukh et al., 2002). These behaviors underscore the strategic importance of loyalty for long-term business success, particularly in competitive markets (Junaid et al., 2019).

Customer loyalty encompasses both behavioral and attitudinal dimensions. Behavioral loyalty is demonstrated through repeat purchases, whereas attitudinal loyalty involves a psychological commitment and a favorable attitude toward the brand (Chen, 2012; Homberg & Giering, 2001). In the financial services sector, loyalty is characterized by consistent engagement with a preferred provider despite available alternatives (Bloemer et al., 1998; Levy & Hino, 2016). Loyal customers in the life insurance industry are more likely to renew their policies, recommend the insurer, and purchase additional products,

contributing to higher retention rates and revenue growth (Ruefenacht, 2018). Given the long-term nature of insurance policies, fostering loyalty through trust and relationship quality is essential to continue life insurance policies (Larsson & Broström, 2020; Oliver, 1999).

Loyalty is often thought to affect retention, but new research suggests that it also affects customers' cognitive assessments of future relationship worth. From an SEU perspective, loyalty reduces perceived uncertainty and enhances confidence in expected outcomes, influencing customers' subjective comparison between staying and lapsing.

Trust

Trust is a critical element in fostering long term relationships and sustaining economic exchanges, particularly in industries like insurance and financial services. Morgan and Hunt (1994) define trust as one party's confidence in another's reliability and integrity. In service contexts, trust represents a customer's confidence that the provider will act in their best interests, ensuring quality and reliability (Garbarino & Johnson, 1999). Trust reduces uncertainty and the risk of opportunistic behavior, which is crucial for maintaining long-term relationships (Hausman, 2001). In industries like life insurance, where customers make upfront payments for future benefits, trust in the provider's integrity and competence is crucial (Guiso, 2021). Customers trust that insurers will honor their claims, while insurers trust policyholders to avoid fraudulent behavior, creating a mutually beneficial relationship (Gennaioli et al., 2021).

Trust also mediates the relationship between service quality and customer loyalty. High service quality fosters trust, which in turn enhances loyalty and retention (Harris & Goode, 2004; Ruefenacht, 2018). Dimensions of trust, such as integrity, benevolence, and competence, are particularly crucial in sectors that require high levels of confidence, including financial services and digital commerce (Prakash, 2023). Ultimately, trust underpins customer engagement, loyalty, and retention, making it indispensable for long term business success, especially in trust dependent industries like insurance and finance.

Theoretical Background

This study reframes customer retention as a relational cognitive decision process rather than an economic or relational consequence. Rational evaluations of costs, benefits, and switching incentives explain retention in traditional economic models (Savage, 1954; Fishburn, 1970; Eling & Kiesenbauer, 2013), while relational and behavioral models emphasize trust, satisfaction, and loyalty as direct antecedents of continued relationships. These techniques don't explain why customers stay with service providers in high-uncertainty, credence-based environments when outcomes are delayed and hard to judge (Ruefenacht, 2018). The proposed framework extends existing explanations by showing how co-production, as a value co-creation mechanism (Vargo & Lusch, 2004; Grönroos, 2008), shapes trust and loyalty, which influence customers' subjective evaluations of

expected utility, perceived risk, and anticipated regret associated with retention decisions. The study refines relational value creation and decision-making under uncertainty to advance customer retention theory beyond context-specific application to a unified relational decision-theoretic explanation.

Service Dominant Logic

Service-Dominant Logic (SDL) represents a paradigm shift from a traditional product-centric approach to a service-driven, customer-centric perspective (Vargo & Lusch, 2004). SDL posits that value is co-created through collaborative interactions between customers and service providers, rather than being embedded in products or services alone (Grönroos, 2008; Vargo & Lusch, 2008). Service-Dominant Logic (SDL) presents a distinct perspective on economic exchange, which aligns more closely with Adam Smith's (1776) fundamental ideas of real value and value in use. This market exchange is understood as a process of reciprocal service provision (Vargo & Lusch, 2004).

Service-dominant logic has evolved in response to various criticisms (Lamberti & Paladino, 2013). Furthermore, practical application is necessary to establish its relevance to the organization and its impact on performance, as well as awareness and comprehension of how this area of research can be applied in practice. According to these researchers, it is essential for organizations to understand how SDL can be practically applied to achieve tangible benefits. Grounded in Service-Dominant Logic, various assumptions are explored to demonstrate the applicability of this evolution, particularly within the insurance context, to address the identified gaps in translating the research area into practice. Fundamental assumptions of Service-Dominant Logic include the idea that specialized skills and knowledge are essential for exchange, and that goods serve as distribution mechanisms for service provision. Knowledge is regarded as the primary source of competitive advantage, and all economies are seen as service economies. In this framework, the customer is always a co-producer of value, while the enterprise can only offer value propositions. A service-centered view is both customer-oriented and relational (Vargo & Lusch, 2004). In response to criticisms, Vargo and Lusch revised these assumptions to include: service as the fundamental basis of exchange; indirect exchange as central to economic transactions; goods as mechanisms for service provision; operant resources as the key source of competitive advantage; the customer as a co-creator of value; enterprises offering value propositions; the importance of a customer-oriented and relational approach; all social and economic actors as resource integrators; and the understanding that value is uniquely and phenomenologically determined by the beneficiary.

Relying on the revised assumptions of Vargo and Lusch (2008), Brodie et al. (2006) supported the Service-Dominant Logic (SDL) framework, emphasizing that the service brand is a crucial relationship asset and a key component of SDL. Additionally, Brodie, Glynn, and Little (2006) expanded on Vargo and Lusch's (2004) work by integrating the concepts of brand equity, customer equity, and network equity into a broader theory of marketplace equity, along with the idea of value co-creation. Furthermore, contributing

various criticisms of the Service-Dominant Logic (SDL), Karpen et al. (2012) stated that, according to Service-Dominant Logic, companies should focus more on creating valuable experiences through mutual resource sharing, rather than just focusing on products, where they highlighted the service value co-creation. Later, Grönroos (2011) identified factors that contradicted or were not supportive of the initial viewpoint of Service-Dominant Logic (SDL). Specifically, Grönroos questioned the assumption that service is the fundamental basis of business, and that goods are merely a distribution mechanism for service provision. He also challenged the idea that the customer is always a co-creator of value, and that the firm cannot deliver value but can only offer value propositions. Additionally, Grönroos argued against the SDL assumption that all social and economic actors are resource integrators, and that value is always uniquely and phenomenologically determined by the beneficiary. To effectively offer value propositions and plan their strategies, firms must first understand their customers' buying and consumption behavior including what they buy, why, where, how, and when. With this insight, firms can proactively design strategies to position themselves within the customer's value creation process, highlighting the fact that customer engagement in co-production, where customers help shape and customize services to meet their needs.

In the life insurance industry, SDL emphasizes the co-creation of policies tailored to customers' unique financial needs, enhancing engagement, satisfaction, and trust (Yim et al., 2012). Customers who are involved in customizing their policies tend to have higher satisfaction levels and stronger relational bonds with insurers, leading to greater policy retention and reduced lapse rates (Chan et al., 2010; Etgar, 2008). However, SDL also acknowledges the potential used for value co-destruction if customer involvement is excessive or poorly managed (Echeverri & Skålén, 2011). To effectively implement SDL, insurers must strike a balance between customer empowerment and structured guidance, thereby preventing confusion and ensuring clear communication and support for maintaining service delivery efficiency (Järvi et al., 2018). Therefore, in this context, SDL contributes to research by bridging the gap between firm controlled service delivery and customer participation. It demonstrates how co-production enhances customer satisfaction, loyalty, and trust in a highly competitive market, while highlighting how co-created service experiences lead to lower lapsation rates and stronger customer retention. SDL thus fills the gaps identified in the literature, grounding the theory in practical application

Subjective Expected Utility (SEU) Theory

Subjective Expected Utility (SEU) Theory offers a foundational framework for understanding decision making under uncertainty. Unlike Classical Expected Utility Theory (EUT), which is based on objective probabilities (von Neumann & Morgenstern, 1947), SEU incorporates individual beliefs and preferences, allowing decision-makers to assign subjective probabilities to outcomes and evaluate them through a personal utility function (Fishburn, 1970; Savage, 1954). This integration enables individuals to make rational choices tailored to their own perceptions of risk and benefit, thereby

accommodating the inherent uncertainty of real-world decision environments (Gilboa, 2009; Machina, 1987). In the domain of consumer behavior, Verhoef (2003) draws on SEU to explain the relationship between customer satisfaction and loyalty, positing that consumers strive to maximize the subjective expected utility they derive from a particular company. In this context, customers assess SEU by evaluating the expected value of different service outcomes, weighed by their beliefs about the likelihood of those outcomes occurring (Oliver & Winer, 1987). Since these assessments are influenced mainly by prior experiences and satisfaction levels, it follows that customers, *ceteris paribus*, will remain loyal to the firm that consistently delivers the highest perceived utility. This highlights how SEU theory provides psychological and decision-theoretic support for understanding customer retention, especially in long-term, trust-oriented service contexts like life insurance (Starmer, 2000; Wakker, 2010).

Savage's axiomatic system laid the groundwork for modern decision theory by suggesting that rational agents maximize expected utility based on their personal beliefs about uncertain outcomes. This approach has been instrumental in fields such as economics, finance, insurance, and behavioral science (Ramsey, 1926; Savage, 1954). In the life insurance industry, SEU is particularly relevant due to the long-term nature of policies and inherent uncertainty in outcomes. Policyholders assess the value of staying with an insurer based on subjective expectations of future service quality, financial returns, and trust (Ruefenacht, 2017; Verhoef, 2003). SEU helps explain why customers remain loyal when they perceive a higher expected utility, such as emotional security, personalized engagement, or financial assurance from their insurer (Oliver & Winer, 1987).

However, SEU has received notable criticism, particularly from behavioral economists. Scholars such as Kahneman and Tversky (1979) argue that SEU fails to account for cognitive biases like loss aversion and ambiguity aversion. Empirical anomalies, such as the Allais and Ellsberg paradoxes (Allais, 1953; Ellsberg, 1961), show that individuals often violate the axioms of expected utility, opting instead for heuristics or emotion-driven decisions. These critiques led to alternative frameworks, such as Prospect Theory, which emphasizes decision-making relative to reference points and accounts for irrational preferences (Camerer, 1998; Ellsberg, 1961; Kahneman & Tversky, 1979). Cognitive biases, such as overconfidence, anchoring, and loss aversion, frequently distort actual decision-making, calling into question the predictive reliability of SEUT (Thaler, 1985; Tversky & Kahneman, 1981). Despite these critiques, SEUT remains a valuable theoretical tool, particularly when augmented by behavioral insights, and continues to influence modern theories of decision-making under uncertainty (Starmer, 2000; Wakker, 2010).

At the core of Subjective Expected Utility Theory (SEUT) are several foundational assumptions. First, the assumption of rationality posits that decision-makers aim to maximize their expected utility based on consistent preferences, meaning individuals have well-defined preferences and make choices that align with these preferences (Fishburn, 1970; Savage, 1954). Second, the principles of completeness and transitivity

require that individuals can compare any two alternatives (completeness) and maintain consistent preference orderings (transitivity) (Fishburn, 1970; von Neumann & Morgenstern, 1944). Another critical assumption is independence, which states that preferences between options should remain consistent even when presented within mixed lotteries, assuming the exact probabilities. Specifically, if an individual prefers option A Over B, they should also prefer a lottery combining A with another option C over a lottery combining B with C, given the same probabilities (Machina, 1982; Savage, 1954). Furthermore, SEU allows for subjective probabilities, enabling individuals to assign personal probabilities to uncertain events, reflecting their unique beliefs and experiences (Jeffrey, 1965; Savage, 1954). Lastly, the extensibility of preferences suggests that even if current preferences do not fully align with SEU axioms, they can be adjusted or extended to fit the model without discarding existing preferences. This flexibility ensures the theory remains applicable even when individuals' preferences evolve over time or in response to new information (Gilboa, 2009; Kreps, 1998). Overall, SEU provides a robust theoretical foundation for understanding and predicting decision-making behavior under uncertainty, emphasizing the role of individual beliefs and preferences in shaping choices (Gilboa, 2009; Savage, 1954)

SDL and SEU theory are independent theoretical lineages, but their combination provides a cohesive platform for studying customer retention in long-term, high-uncertainty services like life insurance. SDL views consumers as active resource integrators who co-create value with service providers. In contrast, SEU theory describes how people make uncertain decisions by analyzing subjective probabilities and expected outcomes of different actions. In life insurance, relational experiences generated through co-production shape customers' trust and loyalty, while SEU explains how these relational evaluations inform customers' subjective assessments of the utility of maintaining or discontinuing insurance relationships. Integrating SDL and SEU allows customer retention to be examined as a relational value co-creation and uncertainty-based decision-making process.

Propositions and Conceptual framework

The intended research has developed four propositions supported by the theoretical foundations of Service-Dominant Logic (SDL) and Subjective Expected Utility (SEU) theory. The framework highlights the direct relationship between co-production and customer retention, emphasizing how active involvement from policyholders can strengthen long-term engagement. A second direct relationship is proposed between co-production and customer loyalty, reflecting the role of participatory service experiences in shaping attitudinal and behavioral commitment. Furthermore, customer loyalty is positioned as a mediating mechanism through which co-production influences retention outcomes. Finally, trust is introduced as a moderating variable, which reinforces or weakens the effect of co-production on retention under conditions of uncertainty. Together, these propositions provide an integrated framework that bridges relational and

decision-making perspectives in explaining customer retention in the life insurance industry.

Co-production and Customer Retention

Co-production, a core principle of Service-Dominant Logic (SDL), emphasizes the collaborative creation of value between customers and service providers. This engagement not only strengthens customer relationships but also allows for better service customization, ensuring that services are aligned with individual needs, particularly in complex, credence-based sectors like financial services (Chen & Wang, 2016; Dargahi et al., 2021).

In the context of financial services, customers often value the process of service delivery over the outcome itself (Karantinou & Hogg, 2009). Their involvement in co-production increases expectations and investment, which in turn influences their perceptions of service quality (Jung & Yoo, 2019). While co-production can lead to positive outcomes, such as improved loyalty and retention, excessive involvement may create stress for both customers and service employees, potentially leading to value co-destruction (Echeverri & Skålén, 2011 Haumann et al., 2015).

Research highlights that co-production enhances service quality and loyalty, which are key drivers of customer retention. In the life insurance sector, for example, customer involvement in policy design strengthens the relationship with the insurer and supports retention outcomes (Ruefenacht, 2018; Wu, 2017). Furthermore, when customers feel ownership and commitment through co-production, they are more likely to stay loyal to the provider, reducing the risk of policy lapsation (Wu & Rouyer, 2022). Thus, the effective implementation of co-production strategies plays a critical role in fostering loyalty, improving service delivery, and enhancing customer retention (Gronroos, 2008; Vargo & Lusch, 2014).

When co-production is effectively managed, it not only fosters trust and satisfaction but also aligns with retention strategies that reduce churn and enhance long-term customer engagement. Co-production and customer retention are positively correlated from a relational standpoint, but this paradigm adds a decision-theoretic focus. Co-production influences retention by changing customers' subjective evaluations of projected utility, including perceived long-term benefits of policy continuity and anticipated remorse from lapsation, according to SEU theory. Thus, retention is not a direct result of involvement but a conscious decision based on customers' expected utility under uncertainty. Thus the first proposition is proposed:

P1: There is a positive relationship between co-production and customer retention.

Customer Loyalty and Customer Retention

Customer loyalty is a key factor in the long-term sustainability of life insurance firms. In the life insurance industry, loyalty is deeply influenced by trust, satisfaction, and

emotional bonds, which are vital in preventing customers from switching to competitors (Han & Hyun, 2018; Meesala & Paul, 2018). Loyal customers not only stay with the insurer but are also more likely to expand their coverage, further strengthening retention (Larsson & Broström, 2020). This dynamic highlights the importance of loyalty in sustaining customer relationships and minimizing policy lapsation. Research consistently shows that loyalty and retention are intertwined, as loyal customers are less likely to switch insurers, thus improving retention rates (Meesala & Paul, 2018; Nadiri, 2016).

Loyal customers are less likely to switch to competitors, thereby helping insurers strengthen their customer base and improve overall retention. Given the critical role of loyalty in sustaining long-term life insurance relationships, the second proposition is identified as follows.

P2: There is a positive relationship between customer loyalty and customer retention in the life insurance industry.

Co-production and Customer Loyalty

Co-production, defined as active customer participation in service creation, plays a pivotal role in shaping loyalty in service industries such as life insurance. By allowing customers to personalize services, co-production enhances their experience, deepens emotional bonds with providers, and fosters greater attachment to the brand (Chen & Wang, 2016; Wu et al., 2020). Engaged customers not only perceive higher service quality but are also more likely to remain committed and recommend the insurer to others (Thakur, 2016).

Research largely views customer loyalty as a behavioral or attitudinal precursor to retention. In addition, the SDL-SEU integration implies that loyalty is a cognitive reference point for customers' decision-making. In the life insurance industry, co-production thus enhances both service quality and relational bonds, making it a key determinant of loyalty. The third proposition is proposed as:

P3: There is a positive relationship between co-production and customer loyalty in the life insurance industry.

Trust, Co-production and Customer Retention

Trust is widely recognized as a fundamental driver of customer loyalty and retention, especially in the life insurance industry. It reduces uncertainty, mitigates risk, and strengthens long-term relationships (Arianti & Samadi, 2018; Reichheld & Scheffer, 2000). In life insurance, where customers make long-term commitments by paying premiums upfront for future benefits, trust in the provider's competence and integrity becomes essential (Guiso, 2021). Customers must trust that their insurers will honor claims, while insurers trust policyholders to act honestly, creating a mutually beneficial relationship (Gennaioli et al., 2021).

It influences customer decision-making by reducing perceived risks and helping customers evaluate expected outcomes, which is central in industries with high

uncertainty, such as life insurance (Fishburn, 1970; Savage, 1954). Trust therefore functions as both a cognitive and emotional filter, shaping customer loyalty and service evaluation (Morgan & Hunt, 1994; Moorman et al., 1993).

Co-production, the active involvement of customers in the service design and delivery process, can enhance personalization, satisfaction, and engagement (Chen & Wang, 2016; Wu et al., 2020). However, the effectiveness of co-production in driving customer retention depends on the customer's willingness to engage, which is significantly influenced by the level of trust in the insurer. When trust is high, customers are more likely to believe that their contributions will be valued and respected, thus increasing their participation in co-production activities (Han & Hyun, 2018; Ruefenacht, 2018). This trust-based engagement amplifies the benefits of co-production by creating a secure relational context where customers feel empowered to share information and co-design policies, leading to stronger satisfaction and loyalty.

Research supports the notion that trust moderates the relationship between co-production and retention. According to relational marketing theory, trust is a prerequisite for relational commitment and customer retention (Morgan & Hunt, 1994). Auh et al. (2007) affirms that trust, as a moderating factor, influences the strength of the relationship between co-production and retention. In high-trust environments, the positive impacts of co-production such as improved satisfaction, perceived value, and loyalty are more likely to lead to stronger customer retention. Conversely, in low-trust settings, co-production risks leading to frustration and disengagement, which diminishes its potential benefits.

Prior relational models highlight trust as a long-term relationship facilitator, but the SDL-SEU integration clarifies its moderating role in ambiguous decision-making. Trust minimizes perceived risk and enhances the subjective probability of positive future outcomes, boosting co-production utility from a SEU perspective. When trust is high, customers perceive more projected utility in keeping the relationship, boosting retention decisions. When trust is low, co-production efforts may fail to overcome anticipated regret or ambiguity around continuation.

Based on above discussion the following proposition is posited:

P4: Customer trust moderates the relationship between co-production and customer retention, in the life insurance industry.

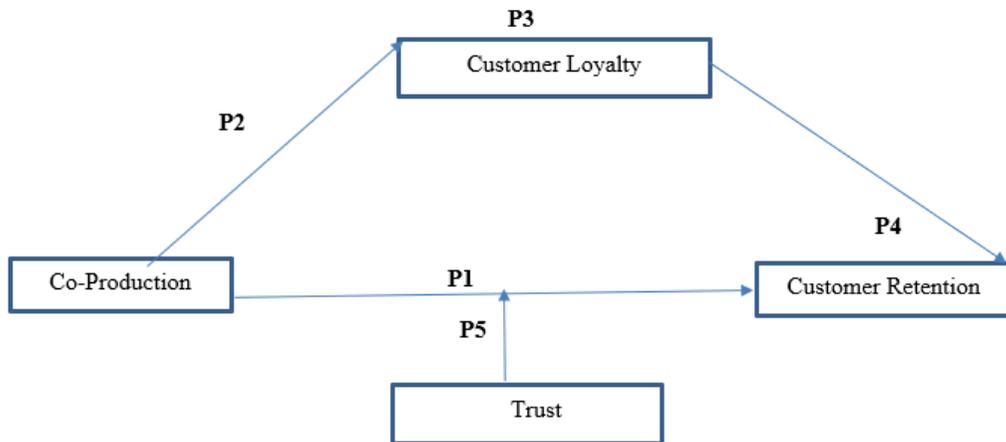
Theoretical and Managerial Implications

Theoretical Implications

This paper contributes to the existing literature on customer retention by examining the roles of trust, co-production, and customer loyalty within the life insurance industry grounded on Service-Dominant Logic (SDL) and Subjective Expected Utility (SEU) theories to offer a more comprehensive understanding of how co-production improves

customer loyalty, and trust in a highly competitive market, and highlighting how co-created service experiences lead to improve customer retention. Thus, this study established co-production fosters higher satisfaction by enabling customers to engage meaningfully in their service experience, particularly in the insurance industry, where policies are complex and require a high degree of personalization (Li-Wei Wu & Rouyer, 2022).

Figure 1: Conceptual framework
Source: Authors.



In the context of life insurance, customer satisfaction can be viewed as a result of perceived utility customers assess their interactions with the insurer based on expected benefits, such as financial security, convenience, and trust in the service provider. The inclusion of SEU adds a theoretical foundation for understanding how customer loyalty is driven by the subjective evaluation of future utility, which directly impacts customer retention.

Furthermore, it has identified trust as a moderating variable between co-production and customer retention. While prior research has explored the independent effects of trust and co-production (Auh et al., 2007; Garbarino & Johnson, 1999), this study advances the understanding of how trust strengthens the relationship between customer engagement and retention. Trust reduces uncertainty and enhances the perceived reliability of the insurance agent, making customers more likely to remain loyal. This finding aligns with the principles of SEU, as trust enhances the subjective expected utility of continuing the relationship with the insurance agent.

Managerial Implications and Direction for Future Research

This study presents several industry-wide implications for insurers operating in emerging markets, such as Sri Lanka, where customer retention remains a significant challenge. Grounded in Propositions P1–P4 and supported by Service-Dominant Logic

(SDL) and Subjective Expected Utility (SEU) theory, the findings suggest that strengthening co-production between insurance agents and policyholders (customers) can significantly enhance retention outcomes.

Firstly, insurers should promote co-production practices by enabling customers to actively participate in policy formulation, tailoring coverage options, and making service decisions that align with their specific needs. This can be achieved by empowering frontline insurance agents with decision making autonomy and training them to facilitate personalized service engagement. Agent driven co-production not only fosters a sense of ownership among policyholders but also enhances trust and loyalty, which are vital predictors of long term retention.

Secondly, trust acts as a moderating factor that amplifies the benefits of co-production on retention. To cultivate this trust, insurance providers must ensure transparency, ethical selling practices, and responsive dual way communication. By reinforcing the integrity and consistency of service encounters, insurers and their agents can build stronger relational bonds with policyholders and reduce the risk of early policy discontinuation.

Thirdly, insurers should institutionalize mechanisms to assess and reward agent behaviours that promote value co-creation. Initiatives such as post-consultation feedback systems and performance-based incentives can encourage insurance advisors to prioritize long-term relationship building over short-term sales targets. Furthermore, enhancing insurance literacy through digital campaigns, policy seminars, and advisor led consultations can reduce perceived risk and anticipated regret key psychological drivers of retention identified in SEU theory.

This study provides valuable insights into the life insurance industry. However, several areas remain open for further investigation. While this study focuses on the immediate effects of trust and co-production, future research could conduct longitudinal studies to examine how these factors influence retention over time. Investigating the long -term impact of co-production and trust on customer loyalty would provide a more comprehensive understanding of retention dynamics in life insurance. With the increasing digitalization of services, future studies could examine how digital platforms impact the overall customer experience. Future research could delve deeper into other potential moderating and mediating factors that influence the relationship between customer experience, demographic variables, or culture and customer loyalty and retention

This study integrates Service-Dominant Logic (SDL) and Subjective Expected Utility (SEU) to advance customer retention theory by linking relational value creation with subjective utility evaluation under uncertainty through co-production. Trust and loyalty mediate relational engagement to inform purposeful retention decisions in credence-based services like life insurance. Operationalizing co-production, modelling trust and loyalty as mediators or moderators, and adding SEU-related dimensions using longitudinal and structural equation modelling provides a foundation for further empirical testing.

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