CHAPTER – 2

REVIEW

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The state sponsored Life Insurance Corporation (hereinafter referred to as LIC) of India was the sole player in the Indian life insurance market before 2000. With the entry of private players, LIC has lost considerable market share to private players although both market size and insurance premia, are on the rise. In India life insurance products were/are bought more as investments for tax savings rather than risk protection. The brand preference in this category has never been explored in depth. It has been largely assumed that life insurance is an unsought product and customer satisfaction a ‘paradox’. The proposition that has been examined is that customer satisfaction can provide business opportunities in this under penetrated market. It can be a vehicle for identifying new avenues for cross selling, up selling and referrals. It also attempts to identify the dimensions of service quality which are important to a customer. SERVQUAL scale was used to discern the different dimensions of service quality and mean scores were used to find out if there is any gap between customer expectations and perceptions. Primary research was used to collect data on RATER scale among LIC customers in Delhi. (Timira Shukla, 2011)

Retaining a customer is four time cheaper than acquiring a new one. The retention of the customers is of utmost importance in the insurance industry in specification. Insurance business is of the relationship building process. were one customer leads to the building of other one. A satisfied customer is like a word of mouth advertisement for the company. The needs of the existing customers should be identified and satisfied well rather than only concentrating at the new accounts. All possible measures needs to taken to retain the customers as it is lesser costlier as well as provides stability to the business.

It wasn’t too long back when the good old endowment plan was the preferred way to insure oneself against an eventuality and to set aside some savings to meet one’s financial objectives. The traditional endowment policies were investing funds mainly in fixed interest
Government securities and other safe investments to ensure the safety of capital. Thus the traditional emphasis was always on security of capital rather than yield. However, with the inflationary trend witnessed all over the world, it was observed that savings through life insurance were becoming unattractive and not meeting the aspirations of the policyholders. The policyholder found that the sum assured guaranteed on maturity had really depreciated in real value because of the depreciation in the value of money. The investor was no longer content with the so-called security of capital provided under a policy of life insurance and started showing a preference for higher rate of return on his investments as also for capital appreciation. It was, therefore, found necessary for the insurance companies to think of a method whereby the expectation of the policyholders could be satisfied. The object was to provide a hedge against the inflation through a contract of insurance. Decline of assured return endowment plans and opening of the insurance sector saw the advent of ULIPs on the domestic insurance horizon. Today, the Indian life insurance market is riding high on the unit linked insurance plans.

At national as at individual level the excess of income after consumption level savings as funds for investment. Surplus funds can be invested in either real asset or in financial assets. Purpose of investment is to protect one's wealth against erosion of value due to inflation and to earn risk-adjusted return. There are three motives which drive people to purchase insurance products in India. _ Desire to cover risk _ Tax benefit _ Saving motives _ It is argued that in this paper that in the changing scenario for the insurance sector there is going to be a good opportunities for insurance sector to expand its market base. For this purpose there is need to improve the features of the insurance products to make them more liquid or short term schemes could be increased. It is shown that although rewards implied by the insurance products particularly by the tax benefits are quite close to those observed in banks and small saving scheme of the governments. The performance of mutual funds which come in many different types is found to be reasonable compared to the risk involved. The survey indicates that it may not be very difficult to win over the confidence of small investors towards insurance policies if good marketing techniques are adopted to educate the targeted population about the uses of insurance policies from investment point of view.

Insurance is one product which is not demanded by a customer, but supplied to him by massive education and drive marketing. Insurance ought to be bought not sold. The new concept of demand side innovation focuses more on customer’s social and economic reality striving to
deliver maximum value to the customer at an affordable price. Therefore, when the customer becomes the primary focus including him in the invention process becomes mandatory. But, there are certain areas of insurance innovations where the customers cannot be involved. A case in point is the recent insurance product invention called Telemetric Auto Insurance. It’s a product by the Progressive Auto Insurance, which monitors the driving behavior of its auto insurance policyholder. The new machine grabs information and automatically transmits it to the insurer. This information received is regularly analyzed to judicially conclude the intensity of risk the person is exposed and the corresponding premium he is eligible to pay. This is an example of supply side innovation, where it is strictly not possible to include the customer in the innovation process. Though, there are instances where the customer is involved in the testing phase, his inclusion in the conception phase makes an innovation demand-driven.

The findings of the study demonstrate that five-factor structure as proposed by Suresh chandar et al. (2001) has been refined to seven factor construct (consisting of 34 items) representing Proficiency; Media and presentations; Physical and ethical excellence; Service delivery process and purpose; Security and dynamic operations; Credibility; and Functionality. Besides, the study also investigates the relationship between each of the generated service quality dimensions and customers overall evaluation of life insurance service quality. It reveals that among these seven factors, three viz., Proficiency; Physical and ethical excellence; and Functionality have significant impact on the overall service quality of Life Insurance Corporation of India. Managerial implications and directions for further research have also been discussed.

Sales personnel by providing enough information to the customers, enables them in forming their assessment about the products or services, which ultimately becomes customer value. Customer satisfaction and acumen orientation significantly influence the future business opportunities and if the salespersons are able to foster their relationships with the clients, clients will be more satisfied and more willing to trust, and thus secure the long term demand for the services (Tam and Wong, 2001).

According to Crosby et al. (1990) the lack of concreteness of many services of which insurance is one, increases the value of the persons responsible for delivering them. Putting the customer first, and, exhibiting trust and integrity have been found essential in selling insurance (Slattery, 1989). In marketing life insurance, insurance agents are often considered to be marketing complex services (Nik Kamariah, 1995).
Insurance sales agents fully understand the customers’ needs and requirements as well as build a trusting relationship between themselves and their clients to promote long-term mutually beneficial relationship (Crosby et al., 1990).

The agent has to deal with the dilemma between making sales (self interest) and providing service (customer benefit) (Oakes, 1990). Customers are, therefore, likely to place a high value on their agent’s integrity and advice (Zeithaml et al., 1993).

Insurance agents who sell policies are not employees of the insurance companies. Rather, they work on a commission basis and thus are motivated by the volume of sales made (Annuar, 2004). This is because; insurance agents are involved in long-term commitment and a continual stream of interaction between buyer and seller. After the sale, agents also provide follow-up service and help customers make policy changes in response to changing needs (Noor and Muhamad, 2005).

The company – agent link is stronger than the agent – company link, which in turn, is stronger than the customer – company link. Customer loyalty depends on how strong the agents’ link with the customer is (Balachandran, 2004). Agents are the indeed ambassadors and the backbone of the insurance industry (Malliga, 2000).

Life Insurance Corporation of India (LIC), the capital intensive business, provides the most important financial instrument to customers aimed at protection as well as long term savings. The Corporation reaches out to the people through the main traditional route of the agency model for the selling processes of the numerous complex need-based products. The gigantic superstructure that LIC has evolved into over the years is in fact built on the singular efforts of the salesperson, the primary contact point of the customers who motivates and persuades them to buy an insurance product. Such a salesperson, a sole player must display highest degree of integrity and ethics to foster a trusting relationship with his clients who would be more than satisfied and willing to be buyers. At present, LIC has around 2.70 million agents and they represent more than 60 percent of the life insurance business (www.licindia.com; Lepaud, 2008). They concentrate their efforts on seeking out new clients and maintaining relationships with the old ones. If policy holders experience a loss, agents help them to settle their insurance claims.

The liberalization of Indian economy ushered in an era of competitive marketing leading to the radical changes in the entire gamut of products and services. The service sector, hitherto
limited in nature and scope, changed into an aggressive mode appropriating the front stage touching almost every sphere of human activity, viz., banking, insurance, information technology, welfare etc. and accounted for approximately two-thirds of worldwide GNP right from the beginning of the twenty first century (Kara et al., 2005).

Delivering quality service is considered an essential strategy for success and survival in today's competitive environment (Dawkins and Reichheld, 1990; Parasuraman et al., 1985; Reichheld and Sasser 1990; Zeithaml et al., 1990). In the literature, the construct of quality is conceptualized based on perceived service quality (Hishamuddin et al., 2008).

Perceived service quality is defined as „global judgment, or attitude, relating to the superiority of the service” (Parasuraman et al., 1988). In the huge service sector, insurance sector is one of the most important entities which has been growing relatively fast in India. At present there are twenty three players in the Indian life insurance industry out of which Life Insurance Corporation is one of the leading public companies, holds largest number of policies in the world to suit different financial requirement of an individual. With a greater choice and an increasing awareness, there is a continuous increase in the customers” expectations and they demand better quality service. Therefore, to sustain in the market, service quality becomes a most critical component of competitiveness for Life Insurance Corporation of India. Although, by providing quality services to its customers, the Corporation can differentiate itself from other service firms and will able to improve its profitability. The purpose of the present study is to measure customers” perception towards service quality of Life Insurance Corporation of India by applying a framework developed by Sureshchandar et al. (2001). Moreover, the study also identifies the relationship between each of generated service quality dimensions and customers” overall evaluation of service quality in India.

In spite of the growing importance of service quality (Qualls and Rosa, 1995), it remains an abstract and elusive construct that is difficult to define and measure (Brown and Swartz, 1989; Carman, 1990; Crosby, 1979; Gravin, 1983; Parasuraman et al., 1985, 1988; Rathmell, 1966). In the empirical literature, there are many alternative service quality models and instruments developed for measuring service quality. Sasser et al. (1978) suggested three different attributes (levels of material, facilities, and personnel) all apparently dealing with the process of service delivery. Gronroos (1984) argued that service quality can be divided into two generic dimensions: technical quality (what is provided) and functional quality (how the service is
provided), with image quality (the organization’s reputation for quality) mediating the impact of these two dimensions on overall perceived quality.

Subsequently, Gronroos (1990) identified six specific dimensions viz., professionalism and skills, reliability and trustworthiness, attitudes and behavior, accessibility and flexibility, recovery, and reputation and credibility, on which service quality could be measured. However, these dimensions have not been subject to any rigorous empirical testing, although a number of studies have used scales based on such principles (e.g., Lehtinen and Lehtinen, 1991). Lehtinen and Lehtinen (1982) discussed three dimensions viz., physical quality, involving physical aspects; corporate quality, involving a service firm’s image and reputation; and interactive quality, involving interactions between service personnel and customers.

In the mid-1980s, one of the most systematic research programmes in service quality was conducted by Parasuraman et al. (1985). They revealed ten dimensions viz., tangibles, reliability, responsiveness, competence, courtesy, credibility, security, communication, understanding, and access in the original model of service quality. But in the subsequent study of Parasuraman et al. (1988), these ten dimensions were condensed into five viz., tangibles, reliability, responsiveness, assurance, and empathy. This led to the development of a 22-item SERVQUAL scale for measuring service quality. According to the SERVQUAL scale, service quality can be measured by identifying the gaps between customers’ expectations of the service to be rendered and their perceptions of the actual performance of the service.

Since most insurance companies are not adequately equipped to help their agents deal with customer centered problems CRM insurance enables insurance organizations to survive in a tough economic climate by using the data the insurance company has on the existing customers and then use it to increase the level of profitability. It manages to enhance customer relationships based on customer's unique requirements. CRM enables customers themselves to do research on products, have answers to their questions etc. In addition to this policyholders can check their claim status, change their account information, submit complaints etc. Insurers find that CRM is assisting them in their marketing efforts as well through a comprehensive understanding of the client base. CRM aids the insurance companies by ensuring that campaigns are more affective.

Insurance is basically a customer-focused concept selling business where a policy is being sold to the customer through appropriate channel of distribution. In the present days, agents and banks are the two widely and important source of distribution to sell Insurance
products. Bancassurance was a completely unknown insurance distribution channel in India when the insurance sector opened up a decade ago. Today, it is expected to generate 40 per cent of private insurers’ premium income by 2012, which is significantly higher than the current 25 per cent to 28 per cent. The shape of the Insurance Industry is being changed by developments in distribution. It is the distributor who makes the differences in terms of product quality, customer services in terms of after-sale and claim settlement. Multi-channel distribution and marketing of insurance products will be the smart strategy for the Indian market. The size of the country, a diverse set of people combined with problems of connectivity in rural areas, makes insurance selling in India a very difficult proposition. Life insurance companies require immense distribution strength and tremendous manpower to reach out to such a huge customer base. Huge uninsured Indian market offers abundance future scope for the growth and expansion of bancassurance.

Anuja Banerjee (2009) in her article studied the concept of Bancassurance and its role in Insurance Industry. Bancassurance means selling insurance products by banks through their distribution channels has become one of the major para-banking activities of the banks. If marketing of insurance products by banks is done efficiently and ethically, than it ensures a win-win situation for all parties concerned, the bank, the insurance company as well as the customer. There is a large potential and future development of Bancassurance in India and many Insurers finding it as a attractive and profitable form of distribution channel for distribution of their products.

Andhra Business Bureau (April 2010) in an article titled “Bancassurance to touch 40 percent of premium income by 2012”. Based on Towers Watson India Bancassurance Benchmarking survey 2009-10, it is expected that that banc assurance would generate 40 per cent of private insurers” premium income by 2012, Bright prospects for bank distribution in India, given the impressive branch banking architecture that reaches every part of the country and touches every economic segment of the population.

business. Selling of life Insurance products largely depends on the skill and efficiency of the distributor. The role of agent is very vital as compare to other forms of marketing channels like brokers, corporate agents and banc assurance etc. Banc assurance emerging as a new form of distribution channel where banks performed role of intermediary and sell policies directly to the customers.

Kumar (2006), “Banc assurance-Opportunities and Challenges in India”, First Edition, Hyderabad ICFAI publication has clearly mentioned in his book that how banc assurance will be beneficial for banks, insurers and customers and also present challenges and opportunities of banc assurance in India. He identified cultural differences between banks and insurance companies could pose a major challenge to the growth of banc assurance. Large customer base and people trust on bank is the main opportunity for the banks as a distribution channel for insurance companies.

M. Rajkumari (2007) in the paper titled “A Study on Customers' Preference towards Insurance Services and Bancassurance” examined the awareness, satisfaction and preferences of customers towards various Insurance services and bancassurance. The study has been undertaken by the researcher in order to identify the customer's attitude towards purchase of insurance products and also their knowledge on the banc assurance formats available through banks. He also gave suggestions to improve customer awareness on banc assurance and performance of banks in selling insurance policies.

Pandey. N (2008) in his Dissertation report titled “Bancassurance as a strategic management tool” has explained the present status of bancassurance and how it is gaining world-wide acceptance and why in an Indian Insurance Industry it is seeing [as a strategic management tool.

S Krishnamurthy, S V Mony, Nani Jhaveri, Sandeep Bakhshi, Ramesh Bhat and M R Dixit (2005), in the paper titled, “Insurance Industry in India: Structure, Performance and Future Challenges”, clearly explained the status and growth of Indian Insurance Industry after liberalization and also presents future challenges and opportunities linked with the Insurance. Insurance is the backbone of country’s risk management system and influence growth of an economy in several ways. Penetration of Insurance largely depends on availability of Insurance products, insurance awareness and quality of services. The future growth of this sector will depend on how effectively the insurers are meeting the expectations of their customers and able
to change the perceptions of the Indian consumers and make them aware of the insurable risks. The paper has also drawn attention on emerging structure, role of banc assurance, agents and customer services in the success of life insurance business.

The giant public sector life insurance company in the study area with their thick infrastructure facilities and network of branches enjoyed a monopoly status in spite of the competition with private players on the basis of their service quality. The opinion survey with the policyholders also brings to the fore that the LIC has served them well in regard to dissemination of product knowledge, issue of policies, after sales service before and after claim even though a slight discontent is reported by minority.