Chapter-1

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1.1 THE SERVICE SECTOR

Service sector, also known as the “tertiary sector” is considered to be an integral part of the world economy. It has emerged as the largest and fastest-growing sector, making higher contribution to the global output and employment. Its growth rate has been higher than that of agriculture and manufacturing sectors worldwide. In advance economies the growth in primary and secondary sectors are directly dependent on the growth of services like banking, insurance, trade, commerce, entertainment, social and personal etc. The U.S. and other developed economies are now dominated by the service sector, accounting for more than two-third of their GDP, (Hassan and Sanchez, 2011).

Service sector has been a major contributor to India’s GDP and growth (Bhattacharya and Mitra 1990). It is the second largest employer after agriculture. India’s trade in services have increased overtime and services accounts for the largest share in India’s foreign direct investment (FDI) inflows and outflows. According to Department of Industrial Policy and Promotion (DIPP), the services sector received foreign direct investment (FDI) equity inflows worth Rs 179,150.49 crore (US$ 28.78 billion) in the period April 2000–August 2013, About 80 per cent of India’s total exports are dominated by high-skilled services, such as software business services, financial services and communication services.

Existing studies show that liberalization and reforms are one of the important factors contributing to the growth of service sector in India (Chanda 2002, Gordan and Gupta 2003, Banga and Goldar 2004 and Jain and Ninan 2010). High income elasticity of demand for services has contributed to the high growth of this sector (Bhattacharya and Mitra 1990 and Gordan and Gupta 2003). Technological progress and availability of high skilled manpower has led to growth of services like information technology (IT) and IT enabled services (ITeS) (Chanda 2002). Developed countries outsource its services to developing countries like India leading to a rise in demand for services from the developing market (Bhagwati 1984, Gordan and Gupta 2003 and Hansda 2001). High government expenditure on certain services
like community, social and personal services has also led to high growth of services (Ansari 1995).

According to the data released by Ministry of Finance on 27th Feb 2013 India has highest increase in share of services in GDP at 8.1%. A comparison of the services performance of the top 15 countries for the 11 year period from 2001 to 2011 shows that the increase in share of services in GDP is the highest for India with 8.1 percentage points. These 15 top countries include major developed countries along with Brazil, Russia, India and China. While China’s highest services compound annual growth rate (CAGR) stood at 11.1%, India’s very high CAGR of 9.2% was second highest and also accompanied by highest change in its share. This is a reflection of the fact that India’s growth has been powered mainly by the services sector. India’s services sector has emerged as a prominent sector in terms of its contribution to national and state incomes, trade flows, FDI inflows and employment.

As per the Economic Survey of India 2012-2013, services, industries and agriculture respectively accounted for 57.3%, 25.7% and 16.9% of India’s GDP. The RBI Report (http://www.rbi.com. 2012-13) also highlights that services sector is the fastest growing segment as compared to other sectors of the Indian economy.

1.2 SERVICE QUALITY

With the liberalization and internationalization in service sector, service quality has become an important means of differentiation and path to achieve business success. Such differentiation based on service quality can be a key source of competitiveness for many service providers and hence have implications for leadership in such organizations.

Service Quality is a blend of two words: service and quality. Services are behavioral rather than physical entities, and have been described as deeds, performances or effort, acts or performances, activities or processes. In other words, service is an activity or series of activities of more or less intangible nature that normally, not necessarily take place in interactions between the customer and service employees and/or physical resources or goods and/or systems of the service providers, which are provided as solutions to customer problems (Gronroos 1984). Services are intangible because they cannot be grasped mentally. The abstract nature of services causes problems for both providers and consumers. It is difficult for
service providers to differentiate their offerings from those of competitors, while it is equally difficult for consumers to evaluate a service before it is acquired and consumed.

Quality has been defined differently by different authors. Quality is in the eye of the customers. It can be seen and can be measured. The quality’s gurus, experts and researchers have given various definitions on quality in particular areas i.e. manufacturing of products and services. Some prominent definitions include conformance to requirements (Crosby, 1979), fitness for use (Juran and Gryna, 1988), conformance to specification (Gilmore, 1974), meeting and/or exceeding customer’s expectation (Parasuraman et al., 1985), one that satisfies the customer, performance over expectation (Besterfield, 1999), zero defect (Crosby, 1979) or products’ or services’ ability to perform to its intended function without harmful effect. Quality may be viewed as a property of products or services, or processes producing these products or services.

As per the Japanese production philosophy, quality implies ‘zero defects’ in the firm’s offerings. Quality is a dynamic state associated with products, services, people, processes, and environments that meets or exceeds customer expectation (Geotsch and Davis, 2003). In other words, the quality of a product or service is a customer’s perception of the degree to which the product or service meets his or her expectations. Service quality had a positive impact on customers repurchase intentions and intentions to recommend the company to others (Cronin and Taylor, 1994). Gronroos, (2000) argued that service quality not only affects subsequent service transactions, but also enhances the building and maintenance of long term customer relationships. They established that long term customer retention create exchange efficiencies.

1.3 CUSTOMER SATISFACTION

Customer is a part of company assets, and customer satisfaction will direct influence the revenue of a company (Fomell 1992). Therefore, to maximize customer satisfaction is a goal for a company to pursue. However, there are quite a lot of the customer satisfaction definitions but there is no standard one. In the service literature, Oliver (1980) explained that customer satisfaction entails the full meeting of customer expectation of the products and services. Satisfaction is the consumer’s evaluation of
a product or service meeting their needs and expectations. Customer satisfaction or dissatisfaction is a function of the disconfirmation arising from discrepancies between prior expectations and actual performance (Oliver 1980). Andreassen (1995) defines customer satisfaction as “the accumulated experience of a customer’s purchase and consumption experiences”.

Klaus (1985) defines satisfaction as “the customer’s subjective evaluation of a consumption experience based on some relationship between the customer’s perceptions and objective attributes of the product”. Kotler (2001) defines Satisfaction “as a person’s feeling of pleasure or disappointment resulting from comparing a product’s perceived performance (or outcome) in relation to his or her expectation”. In the same line of thought, satisfaction can be defined “as an attitude-like judgment following a purchase act or series of consumer-product interactions” (Lovelock 2001). Despite the fact that the definition varies, the common factor is that satisfaction is a post-consumption evaluative judgement (Westbrook & Oliver 1991).

Most studies are based on the theory that the confirmation or disconfirmation of pre-consumption product standards is the essential determinants of satisfaction. So, in a service context, the model argues that customers have certain service standards in mind prior to consumption (their expectations), observe service performance and compare it with their standards, and then form satisfaction judgments based on this comparison. If the performance falls short of expectations, the customer is dissatisfied. If the performance matches the expectations, the customer is satisfied. If the performance exceeds expectations, the customer is highly satisfied or delighted (Parasuraman et al. 1988; Kim et al. 2007; Gunderson et al. 1996). In respect of the customer satisfaction measurement, generally, there are two general conceptualizations of satisfaction, namely, transaction-specific satisfaction and cumulative satisfaction (Boulding et al. 1993; Jones & Suh, 2000; Yi & La 2004). Transaction-specific satisfaction is a customer’s evaluation of his or her experience and reactions to a particular service encounter (Cronin & Taylor 1992; Boshoff & Gray 2004), and cumulative satisfaction refers to the customer’s overall evaluation of the consumption experience to date (Johnson et al. 1995).
1.4 SERVICE QUALITY AND CUSTOMER SATISFACTION

In the services literature, strong emphasis is placed on the relationship between service quality and customer satisfaction and whether they are distinct constructs (Parasuraman et al. 1985, 1988; Bitner 1990; Bolton & Drew 1991; Cronin & Taylor 1992; Taylor & Baker 1994). Some researchers contend that service quality and customer satisfaction measure the same thing (Spreng & Singh 1993) while it is basically accepted by majority of the researchers that the two concepts are fundamentally different in terms of their underlying causes and outcomes (Parasuraman et al. 1985, 1988; Bitner, 1990; Bolton & Drew, 1991; Cronin & Taylor 1992; Boulding et al. 1993; Spreng & Mackoy 1996). A review of the emerging literature suggests that there appears to be relative consensus among marketing researchers that service quality and customer satisfaction are separate constructs which is unique and share a close relationship (Cronin & Taylor 1992; Oliver1993). Rust & Oliver (1994) proposed that perceived quality and satisfaction differ in two ways: perceived quality is a more specific concept based on product and service features, whilst satisfaction can result from any dimension (e.g. loyalty, expectations). In addition, perceived quality can be controlled to a certain degree by a company whilst satisfaction cannot. Bitner & Hubert (1994) demonstrated that customer satisfaction results from individual and global transactions, whereas service quality involves a general impression of the superiority or inferiority of the service provider and the services. So, it can be said that satisfaction is generally viewed as a broader concept while service quality assessment focuses specifically on the dimensions of services. Assuming that both constructs are distinct, the next logical question relates to the order of occurrence of these constructs in consumer's mind (the causal link). Some researchers and academics described customer satisfaction as an antecedent of service quality (Bitner 1990; Bolton & Drew 1991) whereas others have counter-argued by proposing service quality as an antecedent of customer satisfaction (Parasuraman et al. 1985, 1988; Cronin & Taylor 1992; Taylor & Baker 1994; Teas 1994). Several researchers have found empirical evidence for this model wherein customer satisfaction is a consequence of service quality (Anderson & Sullivan 1993; Spreng & Mackoy 1996). To summarise, although there is conflicting evidence, the bulk of the literature tends to support satisfaction as an outcome of service quality (Cronin & Taylor 1994; Parasuraman et al. 1994; Taylor & Baker 1994; Teas 1994).
Thus, service quality is an important input to consumer satisfaction and it is expected that the higher the perceived quality of a product, the higher the consumer satisfaction.

1.5 IMPORTANCE OF INSURANCE SECTOR

The insurance sector plays a critical role in a country’s economic development. It acts as mobilize of savings, a financial intermediary, a promoter of investment activities, a stabilizer of financial markets and a risk manager. The life insurance sector plays an important role in providing risk cover, investment and tax planning for individuals; the non-life insurance industry provides a risk cover for assets.

Health insurance and pension systems are fundamental to protecting individuals against the hazards of life, and India, as the second-most populous nation in the world, offers significant potential for that type of cover. Furthermore, fire and liability insurance are essential for corporations to safeguard infrastructure projects and investment risks. Private insurance systems complement social security systems and add value by matching risk with price.

The significance of insurance was also acknowledged in the first conference of United Nations Conference on Trade and Development (UNCTAD) in 1964 by stating that “a sound national insurance and reinsurance market is an essential characteristic of economic growth.” It seems Insurance not only facilitates economic transactions through risk transfer and indemnification but it also promotes financial intermediation (Ward and Zurbruegg, 2000). More specifically, insurance can have effects such as promote financial stability, mobilize savings, facilitate trade and commerce, enable risk to be managed more efficiently, encourage loss mitigation, foster efficient capital allocation and also can be a substitute for and complement government security programs (Skipper, 2001). Prof. Stephanie Hussels (2003) analyse the determinants of insurance demand and how it affects general economic development. From an economic viewpoint, traditional neoclassical growth theory suggests that without technological development, economies can only grow at a fixed rate. But Endogenous growth theory states how investment and growth in one sector of an economy can provide positive externalities for other areas of the economy. Prof. Outreville (1990) Prof. Ward and Prof. Zurbruegg (2000) provide empirical evidence for the fact that insurance market development, promotes economic development.
H. Sadhak (2006) in his article ‘Life Insurance and the Macro economy: Indian Experience’, has observed that there is a very significant relationship between the demand for life insurance and various macroeconomic variables. High growth of GDP induces an economic effect through higher per capita and disposable income and savings, which in turn create a favorable market demand for life insurance. On the other hand, life insurance also provides support to the capital market and savings data pertaining to Indian life insurance and macroeconomic variables broadly indicate a close relationship and interdependence between macroeconomic variables and life insurance demand. Parimal and Joshi (2006) in their research on “Insurance sector in India: A SWOT analysis”, observed that in India, out of 80 million insurable individuals, only 20 million have purchased life insurance, which implies that merely 10 percent of the household families have access to insurance. India’s Insurance market offers immense growth opportunities considering rising disposable income levels of the middle class.

The economic reforms initiated in the early 90s paved the way for the growth and opening up of the financial sector, which led to a sustained period of economic growth. The insurance industry was opened up for private players in 2000, and has seen tremendous growth over the past decade with the entry of global insurance majors. India is fast emerging as one of the world's most dynamic insurance markets with significant untapped potential.

According to India Brand Equity Foundation, Ministry of Commerce & Industry, Government of India, with 36 crore policies, India's life insurance sector is the world’s largest. The life insurance industry in the country is forecasted to increase at a compound annual growth rate (CAGR) of 12-15 per cent in the next five years. The industry aims to hike penetration levels to five per cent by 2020, and has the potential to touch US$ 1 trillion over the next seven years. India, ranked 10th among 147 countries in the life insurance business in FY 13, with a share of 2.03 per cent. The life insurance premium market expanded at a CAGR of 16.6 per cent from US$ 11.5 billion to US$ 53.3 billion during FY 03–FY 13. The non-life insurance premium market also grew at a CAGR of 15.4 per cent, from US$ 3.1 billion in FY 03 to US$ 13.1 billion in FY 13.
1.6 EMERGENCE OF THE PROBLEM

The reforms of Indian insurance sector have brought substantial changes in the level of competition, business environment, managing strategies, service quality and the advance technology front. The wind of liberalization, globalization & privatization has opened new vistas in the insurance industry in the generation of an intensely competitive environment. The post-liberalized insurance industry in India has been witnessing a discernible shift from the sellers” to the buyers” market. The reformed insurance industry has offered a plethora of new customer friendly products, new delivery channels like bank assurance, corporate agents, brokers and direct selling through the internet, greater use of computerization and information technology. Close on the heels of the success of the privatization initiatives in the banking sector; the insurance industry has become another success story on the positive benefits of the competition and of allowing entry of private and foreign players. The reforms at this stage need to be reviewed in order to assess their compatibility vis-a-vis the growth and the performance of insurance industry in India.

Fierce competition, more demanding customers and the changing climate have presented an unparalleled set of challenges (Lovelock, 2001). In such a competitive scenario, it is extremely important that insurance companies are able to retain a satisfied base of customers by continuously enhancing their quality of service. The rapid expansion of insurance companies has given rise to a number of problems related to the image, operational efficiency, productivity, and the quality of portfolio of the system as a whole. They had been receiving persistent complaints about deterioration in the customer service. Since the onset of the reforms, these insurance companies have been compelled to review their philosophy and method of working, in order to be ready for competition.

Insurers all over the world have recognized the importance of service quality and customer satisfaction. The concept of quality management in the present day market situation in Insurance Industry aims basically at customer satisfaction as the prime duty (Bhattacharya, 2005). Since the market has opened up for more players’ the monopoly of the public sector insurers has simply vanished and now each insurer must strive hard to retain the customers and also add more customers to their fold. This is possible only if we provide quality in service. Therefore, insurers must evolve
level of satisfaction to their customers. Dayal (1992), Venkatesh (1987) and Wali (1989) also analysed regarding satisfaction of policyholders.

It has been established that it costs five times as much to attract new customer as to keep a current one satisfied. Losing a customer means losing the entire stream of purchases over a life time of patronage, the customer life time value. Today customers are more concerned about having a high quality experience of service. Quality of service is becoming an increasingly important differentiator between competing business in services sector. Delivering quality to customer is paramount to a company’s wellbeing because it results in more new customers, more business with existing customers, fewer lost customers, more protection from price competition (Carter 2010).

Customer satisfaction is the key to long term success of any organization (Peppers & Rogers, 2005). Keeping the importance of customer satisfaction in mind, insurers need to maintain stable and close relationships with their customers. Customer satisfaction levels needs to be judged. The application of the knowledge of customer satisfaction is imperative to establishing and maintaining a long term relationship with customers and long-term competitiveness (Kumar & Reinartz, 2006). Researchers have found that customer satisfaction has a measurable impact on purchase intentions (Carter, 2010), on customer retention (Voss & Voss, 2008) and on firm’s financial performance (Chalmeta, 2006).

Customers’ wants, needs, and expectations change quickly. Insurers may not be able to provide superior services to the customers unless customer expectations are known. Customer expectations can be known through the knowledge of satisfaction levels of customers (Jham & Khan 2009). This necessitates the measurement of service quality and then to its relationship with customer satisfaction levels. Many of the previous studies have been undertaken in different parts of the world with little inputs from Indian context. India is a culturally and economically diverse society with varying demographic characteristics as compared to other parts of the world. The two insurance companies taken for the study were Life Insurance Corporation of India (LIC) in the public segment and HDFC Life in the private sector. Both the companies have won a number of awards for their products/services in the last few years. LIC bagged ‘Outlook Money award for best Life Insurer’ 2012 whereas HDFC Life conferred 'Most Admired Life Insurance Companies in Private Sector' award at the
Banking, Financial services & Insurance Awards. The scope of present study of the service quality and customer satisfaction of public sector insurer (LIC) and the private sector insurer (HDFC Life) will provide a more comprehensive view of their customers' expectations and perceptions.

The present research, “A Comparative Study of Service Quality and Customer Satisfaction in Insurance Sector” was focused to find answers to the following questions:

1) Do the customers of public and private sector insurance companies differ in their perception of service quality?
2) Which demographic variables contribute towards their difference in perception of service quality?
3) Why do the customers of private and public sector insurance companies differ in degree of customer satisfaction?
4) Is there any relationship between service quality and customer satisfaction?
5) What are the variables which moderated the service quality and customer satisfaction relationships?
References


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