References


Chapter-VIII

Summary of Findings, Conclusions and Suggestions

The contours of insurance business have been changing across the globe and the rippling effect of the same can be observed in the Indian market as well. The insurance industry of India has started to reveal the potential after the process of reforms were started on the basis of recommendation of R.N. Malhotra Committee, which was set up in 1993 with an objective of creating a more efficient and competitive financial system suitable for the Indian economy. The Committee strongly felt that in order to improve the customer services and increase the spread of the insurance, this sector should be opened up to competition. The reforms in insurance sector resulted in to liberalization, privatization and globalization of insurance industry in India. In India, the market share of Public Insurance Companies has been challenged in recent years by a variety of forces-from internet disintermediation to aggressive marketing by new entrants, financial services deregulation, compliance pressure, competition from other investment vehicles and of course customer empowerment. The changing insurance industry dynamics present many opportunities for insurers, but capturing these opportunities requires a well-defined and proactive business response. The insurers must re-evaluate how they handle customer interactions, align their offering with customer purchasing criteria, better understanding, and act on the drivers of customer satisfaction, loyalty and defection. At the same time, they can optimize distributor strategy by proactively seeking to retain and attract quality distributors. Since the onset of reforms, the competition and service quality has definitely improved in terms of underwriting, product innovation, distribution channels, marketing of product and assurance of policy. The reforms have also brought in new industry risks in terms of increased competition, inadequately experienced managers, unknown risk exposure due to different risk aggregates, information risks and mismatching of assets and liabilities.

The Public Sector General Insurance Companies have experienced branch expansion network since nationalization. But quantitative expansion has not always been matched by a corresponding improvement in the quality of customer service and performance. The rapid expansion of insurance companies since nationalization 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 with private sector companies. The urgent response that is required from the existing public insurers is clear that they must remain competitive by doing things better and faster, and by ensuring cost effectiveness with performance. Large number of initiatives have been taken by these public sector companies to compete with private sector companies. But still the public sector companies need to reassess their present status after having modified their approach and philosophy in the post-reform period. Today, in this liberalized world, in order to sustain them, the insurance companies have to ensure quality products at a competitive price. Companies can lower the price of the product by reducing the cost. Their survival depends upon their performance in profitability, productivity, efficiency and service quality.

The present study is an endeavor to examine the effect of reforms on the performance of the Public Sector General Insurance companies, to appraise the comparative performance of the Public Sector and the Private Sector General Insurance companies, to assess the comparative service quality level of General Insurance companies in India and finally to identify the gaps in the performance so as to make suggestions to improve the performance of the General Insurance Industry in India.

8.1 Findings Regarding Spread and Growth of Insurance Industry

- The study reveals that the insurance industry as a whole has registered a profound growth after its liberalization and privatization. The growth rate of public sector general insurance companies has been lesser in the post-reform period than the pre-reform period. Further, the performance of the private sector general insurance companies in terms of growth rate is higher than that of the public sector. The private sector general insurance companies have captured 38.15 per cent market share in terms of gross-direct premium in the year 2007-08.

- No doubt, the study provides that insurance penetration and density has witnessed an increasing trend in the post-reform period, but still it has to cover a long way to reach at the level of developed nations. However, the Indian insurance industry is in a better position in some areas as compared to the fast developing countries like China, Brazil and Russia. It is for the reason that the foreign insurers have been able
to focus their attention only on the developed urban market of India and have failed to provide insurance cover to the low income group massess residing in rural and under developed areas.

8.2 Findings Regarding Impact of Reforms on the Performance of Public Sector General Insurance Companies

- The study brings out that the public sector general insurance companies have witnessed a sharp contrast in their financial performance in the pre- and post-liberalization period. Liberalization has adversely affected the underwriting results of all the public sector general insurance companies, mainly for the reason that in the pre-reform period under study, the average underwriting loss ratio of all the public insurers was 9.08 per cent, whereas in the post-reform period under study, it increased to 22.74 per cent. This is mainly ascribed to two reasons. Firstly, it is because of increase in the average expense ratio which was 24.78 per cent in the pre-reform period and it increased to 34.02 per cent in the post-reform period as these companies in order to face the competition posed by their competitors were compelled to increase spending on advertisements and information technology. Secondly, increase in the claim ratio also contributed towards higher underwriting losses. The average claim ratio in the pre-reform period was 78.76 per cent, which increased to 85.55 per cent in the post-reform period. A closer investigation of the product portfolio from the annual reports of the public sector general insurance companies reveals that there has been a substantial increase in the motor portfolio and health portfolio which constitute significant increase in the claim ratio. However, the higher investment return of the public sector general insurance companies has compensated to their underwriting losses as in the pre-reform period under study, the average investment income ratio of all the public insurers was 23.89 per cent, whereas in the post-reform period under study, it has increased to 36.35 per cent. The higher investment income of the public sector general insurance companies is due to their aggressive investment portfolio policy and better performance of share market.

- The average operating ratio of all the four public sector general insurance companies under study in the pre- and post-reform period was 13.54 per cent and 12.31 per cent, average net earning ratio was 9.5 per cent and 9.89 per cent and average return
on equity was 13.62 per cent and 11.06 per cent respectively. The Mann-Whitney test implies that there is no significant gap between the operating ratio, net earning ratio and return on equity of the public sector in the pre- and post-reform period. Therefore, the study rejected the hypothesis that the profitability of the public sector general insurance companies is significantly higher in the post-reform period than the pre-reform period.

- The Spearman's correlation results reveal that in the pre-reform period, the claim ratio was negatively correlated (-0.683) with return on equity which was significant at 1 per cent level. The expense of management ratio was also negatively correlated (-0.435) with return on equity which was significant at 5 per cent level and underwriting results were positively correlated (0.761) with return on equity, which was significant at 1 per cent level. In the post-reform period, claim ratio was negatively correlated (-0.360) with return on equity which was significant at 5 per cent level, the expense of management ratio was positively correlated (0.362) with return on equity, which was significant at 5 per cent level and investment income ratio had positive correlation (0.645) with return on equity which was significant at 1 per cent level.

- The step-wise regression results depict that in the pre-reform period, underwriting results ratio has significant effect on return on equity as the adjusted $R^2$ value of 0.559 reveals that underwriting results ratio explained 55.9 per cent variation in return on equity, whereas in the post-reform period, in the first step claim ratio entered the regression model (adjusted $R^2=0.347$) explained a significant variation of 34.7 per cent in return on equity. In the second step, claim ratio along with investment income ratio (adjusted $R^2=0.657$) explained a significant variation of 65.7 per cent in return on equity, and in the third step, claim ratio, investment income ratio along with expense ratio (adjusted $R^2=0.699$) explained a significant variation of 69.9 per cent in return on equity. The study further highlights that the claim ratio and expense ratio have significantly negative effect on return on equity and investment income ratio has significantly positive effect on return on equity. It is also observed that no other variable significantly affected the return on equity.

- The efficiency results revealed that as per the premium output model in the pre-reform period under study, the four public insurers, viz. National, New India,
Oriental and United India exhibited average technical efficiency under constant return to scale (CRS) 0.746, 0.749, 0.797 and 0.791 respectively, whereas in the post-reform period under study it was 0.877, 0.648, 0.804 and 0.639 respectively. The average technical efficiency as per variable return to scale (VRS) of the above mentioned public sector companies in the pre-reform period was 0.803, 0.862, 0.838 and 0.904 respectively, whereas in the post-reform period it was 0.921, 0.905, 0.920 and 0.934 respectively. The average scale efficiency of the pre-reform period was 0.925, 0.860, 0.949 and 0.873 respectively, while in the post-reform period it was 0.945, 0.713, 0.873 and 0.684 respectively. The results indicated that the technical efficiency of National insurer under both Constant Return to Scale (CRS) and Variable Return to Scale (VRS) and scale efficiency of the post-reform period is higher than that of the pre-reform period which implies that in the post-reform period, the National insurer has efficiently utilized its various inputs, viz. share capital, reserve and surplus, and operating expenses (including commission) to produce more outputs in the form of net written premium as compared to the pre-reform period. The National insurer has also improved marginally its level of scale of operation as indicated by the marginal improvement in scale efficiency in the post-reform period. The Oriental showed higher technical efficiency under CRS and VRS in the post-reform period than the pre-reform period but the scale of efficiency in the pre-reform period is higher than the post-reform period. The results highlight that the Oriental insurer also efficiently utilized its inputs to produce more outputs, which is due to the improvement of technology although the level of operation was marginally receded but the overall efficiency improved in the post-reform period than the pre-reform period. The results depict that the New India and United exhibited higher technical efficiency under CRS and scale efficiency in the pre-reform period than the post-reform period and pure technical efficiency of the post-reform period is higher than that of the pre-reform period of these two insurers. New India and United insurers utilized their inputs lesser efficiently to produce outputs in the post-reform period. Although, these insurers improved technology in the post-reform period but may not have been able to utilize their improved technology at a proper level of operation to produce outputs which resulted into an overall decline in technical efficiency of these insurers in the post-reform period than the pre-reform
period. The study also shows that in both these periods the public insurers mostly reported decreasing return to scale.

- As per the claim output model, in the pre-reform period, the four public insurers, viz. National, New India, Oriental and United India exhibited average technical efficiency (CRS) of 0.717, 0.681, 0.837 and 0.830 respectively, while in the post-reform period it was 0.831, 0.664, 0.876 and 0.719 respectively. The average technical efficiency (VRS) in the pre-reform period was 0.757, 0.780, 0.861 and 0.883 respectively, whereas in the post-reform period, it was 0.859, 0.879, 0.937 and 0.935 respectively; and the average scale efficiency in the pre-reform period was 0.948, 0.864, 0.971 and 0.937 respectively, whereas in the post-reform period, it was 0.965, 0.753, 0.936 and 0.769 respectively. The results indicated that the technical efficiency of National insurer under both Constant Return to Scale (CRS) and Variable Return to Scale (VRS) and scale efficiency of the post-reform period is higher than that of the pre-reform period which implies that in the post-reform period, the National insurer has efficiently utilized its various inputs, viz. share capital, reserve and surplus, and operating expenses (including commission) to produce more outputs in the form of claim settlement as compared to the pre-reform period. The National insurer has also improved marginally its level of scale of operation as indicated by the marginal improvement in scale efficiency in the post-reform period. The Oriental showed higher technical efficiency under CRS and VRS in the post-reform period than the pre-reform period but the scale efficiency in the pre-reform period is higher than the post-reform period. The results highlight that the Oriental insurer also efficiently utilized its inputs to produce more outputs in the form of claim incurred, which is due to the improvement of technology although the level of operation was marginally receded but the overall efficiency improved in the post-reform period than the pre-reform period. The results depict that the New India and United exhibited higher technical efficiency under CRS and scale efficiency in the pre-reform period than the post-reform period; and pure technical efficiency of the post-reform period is higher than that of the pre-reform period of these two insurers. New India and United insurers utilized their inputs lesser efficiently to produce outputs in the post-reform period. Although, these insurers improved technology in the post-reform period but may not have been able to utilize their
improved technology at a proper level of operation to produce outputs which resulted into overall decline in technical efficiency of these insurers in the post-reform period than the pre-reform period. The study also shows that in both these periods the public insurers mostly reported decreasing return to scale. It is found that the above two models, namely, Premium Output Model and Claim Output Model produced almost the same results.

- As per the Premium and Investment Income Model, in the pre-reform period, the four public insurers, namely, National, New India, Oriental and United India under study exhibited average technical efficiency (CRS) of 0.799, 0.878, 0.850, and 0.930 respectively, whereas in the post-reform period it was 0.922, 0.848, 0.931 and 0.949 respectively. The average technical efficiency (VRS) of the above mentioned public insurers in the pre-reform period was 0.822, 0.890, 0.877 and 0.957 respectively whereas in the post-reform period it was 0.930, 0.909, 0.953 and 0.968 respectively. The average scale efficiency in the pre-reform period was 0.971, 0.987, 0.968 and 0.970 respectively, while in the post-reform period, it was 0.991, 0.926, 0.976 and 0.980 respectively. The efficiency analysis showed that in the Premium and Investment Income Output Model, three public insurers, namely, National, Oriental and United India exhibited higher efficiency in the post-reform period than the pre-reform period in terms of technical efficiency under CRS and VRS and scale efficiency. New India showed higher pure technical efficiency in the post-reform period than the pre-reform period which implies that in the post-reform period, these three public insurers have efficiently utilized their various inputs to produce more outputs in the form of premium and investment income. The results further indicate that these insurers have improved technology, uses of proportion of inputs and scale of operation to produce more outputs in the post-reform period. New India insurer showed marginal improvement in technology but receded in the usage of scale of inputs which resulted in the overall decrease in technical efficiency. The study reveals that as per Premium and Investment Income Output Model, the reforms have positively affected the efficiency of the public insurers and the hypothesis assumed is thus accepted, i.e., the efficiency of the public sector general insurance companies is higher in the post-reform period than the pre-reform period.
8.3 Findings Regarding Comparative Performance of the Public and Private Sector General Insurance Companies

- The study brings out that in the post-reform period under study, the private sector general insurance companies showed lower underwriting losses as the average underwriting result ratio of the public sector was -23.35 per cent and that of the private sector was -15.55 per cent. This is mainly ascribed to a higher average claim ratio of the public insurers, which was 84.33 per cent, whereas for the private insurers, it was 53.11 per cent. The average expense ratio of the public insurers and the private insurers was 35.62 per cent and 37.63 per cent respectively. The public insurers' expense ratio was not significantly lesser than that of the private insurers as the p-value in the Mann-Whitney test of expense ratio is > 0.05. A closer investigation of the product portfolio, through their annual reports, reveals that the lower claim ratio of the private insurers is mainly ascribed to the fact that the private sector general insurance companies are concentrating more on the creamy business. In respect of loss making portfolio, such as motor business, they have avoided to enter it to reduce their claim ratio. On the other hand, the public insurers' main share of premium comes from the higher loss making motor portfolio. Further investigation reveals that the public sector insurance companies do not get much of their business reinsured in contrast to the private sector players, who got most of the business reinsured to reduce their claim incurred ratio.

- The investment income of the public sector general insurance companies is much higher than that of the private sector general insurance companies as the average investment income ratio of the public insurers was 40.27 per cent, whereas for the private insurers, it was just 19.11 per cent, which is much lesser than that of the public insurers. This is mainly ascribed to two reasons. Firstly, it is due to public insurers' aggressive investment portfolio policy and better returns of the share market during the period under study. Secondly, the public insurers have higher net retention ratio than the private insurers and this has enabled the public insurers to use these funds more in investment activities. The average net retention ratio of the public insurers was 73.71 per cent, while that of the private insurer was 54.45 per cent. In general, the public sector companies' strong capital base has enabled them to retain more of their portfolio and the private insurers with lower capitalization (and
hence lower capacity to retain risks) have resorted to higher utilization of reinsurance resulting into lower net retention.

- The higher investment return of the public sector offsets their underwriting losses which resulted into better operating, net earning and return on equity ratio of the public sector than the private sector during the period under study. But the prospects for a rapid improvement in investment return are not certain. The average operating ratio of the public insurers and the private insurers was 15.66 per cent and 4.05 per cent respectively, and the average net earning ratio was 12.67 per cent and 2.17 per cent respectively. The average return on equity ratio of the public insurers was 14.89 per cent and that of the private insurers was 5.36 per cent.

- The Mann-Whitney test implies that the operating ratio, net earning ratio and return on equity ratio of the public sector general insurance companies are significantly higher than that of the private sector companies in the post-reform period which reveals that the profitability of the public sector is significantly higher than that of the private sector. Thus, the hypothesis is rejected that the profitability of the private sector general insurance companies is higher than that of the public sector general insurance companies in the post-reform period.

- The Spearman's correlation analysis during the period under study highlights that the investment income of the public sector was positively correlated (0.532) with return on equity which was significant at 1 per cent level; and investment income and underwriting results were negatively correlated (-0.588) at 1 per cent significance level. The correlation analysis of the private sector shows that expense ratio was negatively correlated (-0.585) with return on equity which was significant at 1 per cent level, net retention ratio was also negatively correlated (-0.352) which was significant at 5 per cent level, and underwriting results ratio was positively correlated (0.793) with return on equity which was significant at 5 per cent level.

- The step-wise regression results during the period under study of the public sector general insurance companies indicated that in the second step, investment income ratio and underwriting results ratio (adjusted \( R^2 = 0.562 \)) explained 56.2 per cent variation in return on equity, whereas in the private sector general insurance companies in the second step, underwriting results ratio and investment income ratio (adjusted \( R^2 = 0.606 \)) explained a significant variation of 60.6 per cent in return on
equity. The regression analysis reported that underwriting results as well as investment income have a significant effect on return on equity. The significant variation in return on equity is due to both underwriting results and investment income of both the public and private insurers.

- The efficiency analysis of the public and private sector general insurance companies in the post-reform period, using three different models of output, revealed mixed efficiency results. In the Premium Output Model, the average technical efficiency under CRS of the private and public sector was 0.760 and 0.730 respectively, whereas average technical efficiency under VRS was 0.874 and 0.946 respectively, and average scale efficiency was 0.876 and 0.769 respectively. The results indicated that technical efficiency under CRS and scale efficiency of the private sector is higher than that of the public sector, and technical efficiency under VRS of the public sector is higher than that of the private sector which reveals that the public sector general insurance companies have better technology than the private insurers but may not have utilized their inputs in a better manner to produce output in the form of net written premium than the private sector general insurance companies. The public insurers may have used their inputs in some other activities like investment activities as observed from the results as per the premium and investment income output model. All these factors resulted in marginally better technical efficiency of the private insurers than the public insurers. The comparison also exhibits a continuous improvement in the efficiency of the private sector general insurance companies. The average pure technical efficiency results further show that in the year 2002-03, the private insurers lagged behind the public insurers, but they are fast catching up and the efficiency scores of the private sector seem to improve. The public insurers average efficiency scores have decreased from the year 2002-03 to 2007-08. It has been observed that most of the private sector companies reported mainly increasing return to scale, while companies from the public sector reported mainly decreasing return to scale. The main cause of lesser efficiency of the public sector general insurance companies is their inappropriate size of the business.

- As per the Premium and Investment Income Output Model, the four public insurers under study exhibited average technical efficiency (CRS) of 0.966, average technical efficiency (VRS) of 0.997 and average scale efficiency of 0.969, whereas the eight
private insurers under study exhibited average technical efficiency (CRS) of 0.784, average technical efficiency (VRS) of 0.906, and average scale efficiency of 0.867. The technical efficiency both under CRS and VRS and scale efficiency of the public sector is higher than that of the private sector. Among the public insurers, National and Oriental, and among the private insurers, Bajaj Allianz appeared as fully efficient general insurance companies in terms of technical efficiency CRS, VRS and scale efficiency. New India emerged as a fully efficient firm in terms of technical efficiency under VRS. The efficiency of the private sector showed an upward trend but they are still lagging behind the public insurers. The study also found that among the public sector National and Oriental and among the private sector Bajaj Allianz enjoyed constant return to scale and the other private insurers mostly reported increasing return to scale. As is evident from the analysis that the public insurers have used more efficiently their inputs to produce more outputs in the form of premium and investment income than the private insurers. The public insurers showed better technology and also better level of operation than the private insurers. Therefore, as per this output model the hypothesis assumed is rejected that the efficiency of the private sector general insurance companies is higher than that of the public sector general insurance companies.

- As per the claim output model, the four public insurers showed an average technical efficiency (CRS) of 0.882, average technical efficiency (VRS) of 0.944, and average scale efficiency of 0.936, whereas the eight private insurers collectively exhibited 0.651, 0.839 and 0.772 respectively. The technical efficiency under both CRS and VRS and scale efficiency of the public sector is higher than that of the private sector. New India appeared as fully efficient company under technical efficiency VRS throughout the period under study. The private sector showed improvement in the efficiency level during the study period but they still lag behind the public sector general insurance companies. Further investigation highlights that mostly public insurers reported decreasing return to scale and private insurers reported increasing return to scale. As is evident from the analysis that the public insurers have used more efficiently their inputs to produce more outputs, namely, payment of claim than the private insurers. The public insurers showed better technique and also better level of operation than the private insurers. As per this output model, the study
rejects the hypothesis that the efficiency of the private sector is higher than that of the public sector in the post-reform period.

- The study found that different output models produce different productivity results in the post-reform period. The Premium Output Model exhibited that the public insurers showed 4.8 per cent regress in efficiency change and 2.5 per cent progress in technology which resulted into overall 2.5 per cent decline in total factor productivity change. On the other hand, the private insurers exhibited 12.6 per cent progress in efficiency change and 4.5 per cent regress in technological change which resulted into 7.5 per cent improvement in total factor productivity. As per the Premium and Investment Income Output Model, the public insurers exhibited 0.7 per cent progress in efficiency change and 3.2 per cent progress in technological change, which resulted into 3.9 per cent growth in total factor productivity. Among the private insurers, there is 8.6 per cent improvement in efficiency and 9.5 per cent regress in technological change leading to 1.7 per cent decline in total factor productivity. As per the Claim as Output Model, the public insurers exhibited almost the same level of efficiency change, technological change and total factor productivity, whereas the private insurers showed improvement of 29.2 per cent in efficiency change and decline of 11.3 per cent in technological change which resulted into 14.6 per cent progress in total factor productivity. Among the private insurers, ICICI Lombard and Reliance exhibited highest decline in total factor productivity.

- On the whole, it is observed that but for ICICI Lombard and Reliance, other private insurers exhibited higher improvement in productivity change than the public insurers in the post-reform period as per Premium Output and Claim Output Model. The results highlight that the private insurers produced more outputs with the same level of inputs at the end of the study period than at the beginning as compared to the public insurers, whereas in the case of two private insurers, namely, ICICI Lombard and Reliance, it looks that these two insurers may have been wrong in the choice of new technology and scale of operation which perhaps led to produce lesser outputs. As these insurers became more experienced at operating in the new environment and the initial false starts in the adoption of new technology and scale of operation have been corrected, the productivity of these two insurers can be...
expected to improve. Therefore, the hypothesis is accepted that the productivity of the private sector is higher than that of the public sector in the post-reform period as per Premium Output Model and Claim Output Model.

8.4 Findings Regarding Comparative Service Quality Level of the Public and Private Sector General Insurance Companies

Various studies at the national and international level have emphasized that the SERVQUAL metric requires substantial modification (customization) prior to its application and more so the service quality dimensions are neither industry specific nor country specific. The five dimension SERVQUAL model, which is based on 22 items of service quality is based on research, which had been conducted mostly in the developed countries. The customers in other cultures may perceive service quality differently. In this respect, the present research revealed the existence of two more dimensions and 16 extra items in addition to five-dimensions and 22 items respectively of SERVQUAL scale that predict service quality and influence customer satisfaction in general insurance industry. As such it has been felt that the SERVQUAL is not a ready to use tool-kit and researchers ought to be cautious while applying the diagnostic SERVQUAL model.

- It was found that in the case of public insurers the difference between customers' perception of service quality and their expectations was negative in 37 out of 38 items representing all the items of tangibility, reliability, responsiveness, empathy, product availability, product convenience and four items of assurance dimension which emphasize on improving service quality in all 37 items where the negative gap is significant. In the case of private insurers, the gap between perception and expectation was significantly negative in 26 items out of 38 items representing three items of tangibility dimension, six of reliability, four of responsiveness, assurance, empathy each, three items of product availability and two product convenience which implies that irrespective of their negative gap scores of other eleven items management should emphasize on improving quality of 26 items. The private insurers have exhibited positive SERVQUAL score on only one item of responsiveness dimension, namely, ‘employees and agents constantly communicate with customers’ which reveals that these insurers stand beyond the customers' expectations on this item. It is observed that if these insurers intend to enhance their respective service quality level, they must improve service quality of those items
where the negative gaps between perception and expectation are significant, i.e., 37 items for the public insurers and 26 items for the private insurers.

- The present study further investigates the comparison of the difference of negative gaps of perceptions and expectations between the public and private sector, to make a comparison of service quality level of the public and private sector general insurance companies. The results indicated that the negative gap scores of the public insurers are significantly higher in eight items representing ‘Physical facilities visually appealing’ of tangibility, ‘Company shows sincere interest in solving customer problem’ and ‘Goodwill’ of reliability, ‘Employees and agents constantly communicate with customers’ of responsiveness, ‘Employees and agents are courteous with customers’ of assurance and ‘operating hours convenient to all their customers’, ‘Understand the specific needs of their customers’ and ‘Commit to ethics and promote ethical behaviour’ of empathy dimension. Therefore, it is found that the service quality of the private sector on 8 out of 38 items is significantly higher than that of the public sector because in these items the negative gap score of the public sector is significantly higher than that of the private sector. The service quality of the public and private sector is insignificantly different regarding the other thirty items which implies that the service quality of the private insurers is better than that of the public insurers.

- The study also examined customers' perceptions towards the overall service quality, customer satisfaction and purchase intention behaviour of the customers of both the public and private sector general insurance companies; and on this basis the hypothesis was tested. The study accepted the null hypothesis that there is no significant gap in the overall service quality, customer satisfaction, the probability to use these facilities - services again, recommendation of the company to a friend, and again make the same choice between the public and private sector general insurance companies.

- The Pearson’s correlation results show that the overall service quality was positively correlated with customer satisfaction for both the public insurers (0.680) as well as the private insurers (0.670) which was significant at 1 per cent level. The regression results indicated that overall service quality explained 45.8 per cent variation (adjusted R²=0.458) in customer satisfaction in the case of public insurers,
whereas in the case of private insurers there was 44.6 per cent variation (adjusted $R^2=0.446$) for the same. The overall service quality was positively correlated with purchase intention for the public insurers (0.663) as well as private insurers (0.631) which was significant at 1 per cent level. The regression results highlight that the overall service quality explained 43.9 per cent variation (adjusted $R^2=0.439$) in the purchase intention behaviour of the respondents of public insurers, whereas in the case of private insurers there was 39.7 per cent variation (adjusted $R^2=0.397$) for the same. The correlation between customer satisfaction and three measures of purchase intentions, namely, purchase again, recommend and again make same choice of the public insurers was 0.612, 0.610 and 0.538 respectively and for the private insurers it was 0.624, 0.598 and 0.523 respectively which were significant at 1 per cent level. The regression results highlight that the customer satisfaction of both the public and private insurers; firstly, adjusted $R^2=0.37$ and 0.386 explained significant variation of 37 per cent and 38.6 per cent respectively in customers’ intention for again use the same facility; secondly, adjusted $R^2=0.366$ and 0.354 explained significant variation of 36.6 per cent and 35.4 per cent respectively to recommend this company; and thirdly, adjusted $R^2=0.284$ and 0.269 explained 28.4 per cent and 26.9 per cent variation in respondents’ intention for again make the same choice. The results pointed out that the overall service quality has significant effect on both customer satisfaction and purchase intention. The customer satisfaction has also significant effect on purchase intention. The study also found that the overall service quality has more influence on purchase intention than the customer satisfaction.

- It was found that very few respondents, i.e., 24 (20 per cent) from the public sector and 32 (17.8 per cent) from the private sector shifted to another company. The various reasons for the shifting were analysed. It was found that delay in claim settlement has been the most pertinent reason for this shifting as majority of the respondents, i.e., 9 from the public sector and 15 from the private sector shifted to another company due to this reason only.

- The study brought out that 37 (30.8 per cent) respondents from the public sector and 21(11.7 per cent) respondents from the private sector availed the claim. Among those respondents who availed the claim, experiences of the respondents with respect to claim settlement was also examined. It has been found that the private
insurers have taken lesser time, lesser formalities and their employees have played better role to settle the claims of their customers than the public insurers.

- The comparative service quality analysis in those cases where the customers availed claim indicated mean perception values of 2.92 and 3.67 in both the public and private insurance companies respectively. The results reveal that the private insurers provide better service quality than the public insurers. The t-test (P < 0.05) indicates that the private insurers deliver significantly better service quality than the public insurers.

- The role of Ombudsman is to provide time bound, free and independent method of dispute resolution for the individual customers. In India, the customers have a little knowledge about Ombudsman, as majority of the respondent customers, i.e., 86 (71.70 per cent) from the public sector and 151 (83.90 per cent) from the private sector did not know about this office in the insurance sector. Among the customers having awareness about it, 7 out of 34 and 5 out of 29 from the public and private sectors respectively filed their complaints to Ombudsman, and most of the complaints related to claim settlement. It has been found that the working of Ombudsman regarding handling and time taken to dispose of complaints is satisfactory from the complainant respondents' point of view.

- The study found that internet is creating new values for both customers and companies, which has in a way compelled insurance companies to explore their potential as a new distribution. The study found that 49.20 per cent and 48.90 per cent respondents from the public and private sectors respectively know about the website facility extended by their insurance companies. It shows that the awareness of customers regarding website is less than 50 per cent. Further, its usage is not common among the customers from both the public and private sector general insurance companies as only 38 respondents from the public sector and 51 respondents from the private sector companies used websites. Majority of the respondents, i.e., 16 from the public sector and 19 from the private sector used the website to know about the products and policies of their company and they perceived that access to the site is quite easy and useful. The public sector customers are found to be more satisfied regarding information displayed on the site than those from the private sector.
The study provides that very few respondents, i.e., 20 (16.7 per cent) and 47 (26.10 per cent) from the public and private sectors respectively have awareness regarding holding of customer meetings by their respective companies. Further, it has been found that only 9 respondents from the public sector and 14 from the private sector participated in customer's meetings. However, majority of the respondents admitted that they were unable to attend such meetings as no information about the date and time of such meetings was ever supplied to them by the company.

The respondents feel that competition has contributed to bring improvement in the overall working of the public sector; and over a period of time the private sector general insurance companies have also registered improvement in their overall working. The private sector general insurance companies have shown more improvement than those from the public sector during the era of liberalization in terms of overall working, time taken to settle claim, procedure and formalities of claim settlement. However, the public sector companies have shown significantly better improvement than the private sector companies as far as innovation of new policies and products is concerned. There is no significant gap with regard to the impact of privatization on the public and private sectors regarding procedure and formalities of taking policy, price of policies after detarrification, behaviour and efficiency of employees and agents.

8.5 Conclusion

It can be said that the insurance industry as a whole has recorded profound growth after liberalization and privatization of the sector, though the reforms have adversely affected the underwriting results of all the public sector general insurance companies, thanks to their increase in expense ratio and claim ratio in the post-reform period. In the post-reform period, the comparative profitability analysis of the public and private sectors reveals that the public sector general insurance companies have exhibited higher underwriting losses than the private sector companies but the higher investment income of the public sector has compensated their higher underwriting losses which resulted into their higher profitability than the private sector general insurance companies. The liberalization process and the competitive environment acted as a catalyst in the general insurance sector and inculcated efficiency in most of the public insurers and made them more efficient as compared to their private competitors, though private players are reducing the gap very fast.
by providing better service quality to their customers. The latest market share figures indicate that in such a short span of time, private players have captured market share to the extent of forty-one per cent, which is an eye opener. It is high time for the public insurers to completely reorganize their business model and service delivery to survive in the market.

8.6 Suggestions of the Study

- The comparative profitability of the public and private sector general insurance companies shows that the main reason for the higher profitability of the public insurers is their higher investment income in the post-reform period. Further, the public sector has exhibited higher underwriting losses in the post-reform period than the pre-reform period. The higher investment return of the public sector general insurance companies has compensated their underwriting losses. The higher investment income of the public sector general insurance companies is due to their aggressive investment portfolio policy and better performance of share market in the recent past. But the prospects for a rapid improvement in investment return are currently uncertain. Given these uncertain prospects of investment return, the public sector general insurance companies must focus on sustainable profitability business model by emphasizing on improvement in the underwriting results to achieve greater profitability and to achieve better underwriting results. These companies must reduce their expense of management by adopting new techniques of information technology and ensure quality product at competitive price to survive in the market. These insurance companies should also explore alternative methods to reduce cost. To achieve this, these companies must become learning organisations and invest in training and development to cope up with the competitive environment.

- The private sector must bring more capital to improve net retention, increase risk bearing capacity which results into their increase in business and investment income.

- All the insurers have exhibited underwriting losses. So, to enhance the profitability, these companies must focus on their underwriting results. The present study highlights that underwriting results of the public sector insurance companies are poor as they have been suffering from losses in their core insurance business. One of the main reasons for that is lesser reinsurance of the business as compared to that of private sector insurance companies. Public sector companies are depending more
and more on the investment income to increase their earnings, and getting more exposed to the risks, which may prove to be risky in the long run. It is suggested that the public sector insurance companies should try to balance their investment activities to keep risk complexion at reasonable level by getting more business reinsured.

- The public insurers have exhibited higher claim ratio because these insurers got majority of their business from loss making portfolios like motor and health. It is suggested that these companies should also focus on other portfolios like engineering, fire, personal accident, marine, etc. It may decline their claim ratio which would result into their better underwriting results. The balanced portfolio performance of the public insurers will also enhance their growth rate, which is at present much lesser than the private sector general insurance companies.

- The study also showed that mostly public insurers reported decreasing return to scale and private insurers reported increasing return to scale. The private sector insurance companies should expand their business to get the benefit of large scale economy, and it will also improve their efficiency. On the other hand, the public insurers should also utilize their improved technology at proper scale because their decline in overall efficiency was mainly due to lesser scale efficiency.

- Productivity of the private insurers due to their high-tech environment was higher than the public insurers. These were basically technology driven companies. These insurers invested more in latest technology rather than employing more and more manpower. It can be suggested that in order to increase productivity, both the public insurers as well as the private insurers should go for full computerization including latest technology and also appoint trained computer experts to handle the insurance service. Existing staff must also be trained according to the latest technical requirements. From time to time, training of manpower is suggested in order to cope with the increasing customer demands of more speed, accuracy and quality service / product.

- The public sector must improve its service quality level in terms of tangibility, reliability, responsiveness, empathy, product availability, product convenience and four items of assurance dimension; and if the private sector intends to improve its service quality level, it must improve the level of service on 26 items out of 38,
namely, representing three items of tangibility dimension, six of reliability, four of responsiveness, assurance, empathy each, three items of product availability and two product convenience, i.e., where the negative gap between customers’ perception and expectation is significant.

- The study suggested that if the public sector wants to increase its service quality level as compared to the private sector, it should enhance the level of service on eight items, namely, ‘Physical facilities visually appealing’ of tangibility, ‘Company shows sincere interest in solving customer problems’ and ‘Goodwill’ of reliability, ‘Employees and agents constantly communicate with customers’ of responsiveness, ‘Employees and agents are courteous with customers’ of assurance, and ‘operating hours convenient to all their customers’, ‘Understand the specific needs of their customers’ and ‘Commit to ethics and promote ethical behaviour’ of empathy dimension, where the negative gap of service quality of the private sector is significantly lesser than the public sector. In order to bring improvement in these areas, the public insurers should invest large amount in the renovation of their offices, where all modern facilities need to be provided to customers like air conditioners, clean toilets, attractive furniture and suitable sitting arrangements. These insurers should employ certain employees specifically to listen and redress customers' problems, constantly communicate with the customers regarding the products, policies, the status of their policies and claims, due date of renewal of policies and all other information which the customers require. The agents and employees should be properly trained to perform their duties in the changed competitive environment. They should be trained in such a way that their behaviour towards the customers is friendly and courteous. An attempt should also be made to inculcate ethical values in them so as to encourage fair practices in the business. These insurers should also keep their offices open in the late hours, which facilitate customers to reach the office after performing their duties and business work. There is need to spend more on enhancing their brand image too.

- Given the influence of service quality on customer loyalty, the study suggests that it is important that service managers concentrate on developing positive feelings in customers towards the service firm. An unsatisfactory service counter can obviously lead to a lost sale and potentially to diminish customer loyalty. Thus management
can play a critical role in enhancing contact employees’ service delivery process by setting high performance standards, enabling contact employees to meet these standards, and appraising and rewarding them accordingly.

- To improve customers' retention and loyalty, these companies should focus more on improving procedures and formalities of claim settlement so that claim can be settled as early as possible and also reasonable amount of claim should be paid to the customers.
- The study highlights that the claim settlement process of the public sector insurance companies has adversely affected their service quality level. So, there is need to improve their claim settlement process to enhance service quality.
- It is suggested that customers should be encouraged to first approach Ombudsman in case of any problem during the term of their insurance.
- The companies should emphasize more on popularizing internet usage by customers as it improves customer satisfaction, and is cost effective too.
- The companies should inform their customers well in time about the meetings arranged for them as many of their problems can be addressed in these meetings. Such meetings help to increase the credibility of the companies to a great extent.

8.7 **Scope for Future Research**

In the present study, an attempt has been made to compare the performance of the public and private sector general insurance companies, to analyse the effect of reforms on the performance of the public sector general insurance companies, and to assess the comparative service quality level of general insurance companies in India. There still remains a viable prospect for future research.

1. The present study has assessed service quality of general insurance companies by using SERVQUAL model. In this model, the service quality is derived from the magnitude and direction of five gaps. But in this study, only one gap between customers' perception and customers' expectation has been analysed. One future area of investigation can be to analyse the other four gaps, namely, difference between consumer expectations and management’s perceptions of those expectations, i.e., not knowing what consumers expect; difference between management's perceptions of consumers expectations and service quality specification, i.e., improper service-quality standards; difference between service quality specification and service
actually delivered; and difference between service delivery and the communication to consumers about service delivery.

2. SERVQUAL AND SERVPERF constitute two major service quality measurement scales. A consensus, however, continues to elude till date as to which one is superior. Research can be done in future to analyse the service quality by using both models and compare the results of both models in general insurance companies in India.

3. The present study has assessed profitability, technical efficiency, productivity and service quality. Research can be done in future to find out allocative efficiency and overall efficiency of general insurance companies. Further, solvency position of the general insurance companies can also be analysed which is most important and necessary for the survival of companies.

4. The present research focuses only on comparative performance of the public and private sector general insurance companies in India. Future research can be done to analyse the comparative performance of both life and general insurance companies. Further, comparative inter-countries’ performance of General Insurance companies can also be analysed.

5. The service quality of general insurance companies has been assessed only in the state of Punjab. So, service quality can also be studied for all other states of India.
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