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Chapter Overview

This chapter talks about literature survey. Part one deals with overview of CRM as a Concept with emphasis on origin and emergence of CRM, core components of CRM and CRM Organization. It also discusses the technology based CRM and future of CRM. Part two deals with overview of insurance sector with discussion on past and present insurance scenario and future growth potential. It gives emphasis on application of technology and increasing importance of customer service in the insurance sector. Part three deals with research carried out in the field of CRM in insurance sector. It covers in detail a discussion on need for insurance CRM.

Part I Overview of Customer Relationship Management as a Concept

2.1 Introduction

Customer Relationship Management (CRM) has generally been assumed to create a competitive edge for an organization, as well as to have a positive impact on organizational performance. However, there is still much debate over exactly what constitutes CRM. In fact, many scholars have claimed that the precise meaning of CRM is not always clear in the literature (Nevin, 1995; Parvatiyar & Sheth, 2001). Furthermore, it states that the term has become a buzzword, with the concept being used to reflect a number of differing themes or perspectives.

For example, at a tactical level, CRM may mean database marketing (Peppers & Rogers, 1995) or electronic marketing (Blattberg & Deighton, 1991). At a strategic level, CRM may mean customer retention or customer collaborating (Vavra, 1992; Peppers & Rogers, 1995). At a theoretical level, CRM may mean an emerging research paradigm in marketing (Parvatiyar & Sheth, 2001). Given these problems, CRM, as an emerging paradigm in marketing, will remain underdeveloped until its key dimensions have been identified and operationalized. In fact, Gummesson, (2002a) comments that CRM, as an emerging discipline, is in need of further theoretical development.
CRM technology applications link front office (e.g. sales, marketing and customer service) and back office (e.g. financial, operations, logistics and human resources) functions with the company’s customer “touch points” (Fickel, 1999). A company’s touch points can include the internet, e-mail, sales, direct mail, telemarketing operations, call centers, advertising, fax, and kiosks. Often, these touch points are controlled by separate information systems. CRM integrates touch points around a common view of the customer (Eckerson & Watson, 2000).

In the marketing literature, the terms CRM and relationship marketing are used almost interchangeably (Parvatiyar & Sheth, 2001). For example, Berry, 1998, defines relationship marketing as “attracting, maintaining and enhancing customer relationships.” Barker, (2000) proposes the following definition. “An organization engaged in proactively creating, developing and maintaining committed, interactive and profitable exchanges with selected customers (partners) over time is engaged in relationship marketing.” Recently, by broadening the scope of relationship marketing and viewing it in a comprehensive management and social context, Gummesson, (2002a) defines it as “marketing based on relationships, networks and interaction, recognizing that marketing is embedded in the total management of the networks of the selling organization, the market and society. It is directed to long term win-win relationships with individual customers, and value is jointly created between the parties involved.”

On the other hand, Jackson (2000) suggests CRM to mean, “marketing oriented toward strong, lasting relationships with individual accounts.” Payne (2000) asserts that CRM is concerned with “the creation, development and enhancement of individualized customer relationships with carefully targeted customers and customer groups resulting in maximizing their total customer life-time value.” Kotler & Armstrong (2004) define CRM as “the overall process of building and maintaining profitable customer relationships by delivering superior customer value and satisfaction.”

In spite of the commonalities described above, some important differences between CRM and relationship marketing do exist. First, relationship marketing is relatively strategic in nature, whilst CRM is used in a tactical sense (Ryals & Payne, 2001: Zablah et al., 2004). Second, relationship marketing is relatively more emotional and behavioral, centering on such variables as bonding, empathy, reciprocity, and trust.
On the other hand, CRM is managerial per se, focusing on how management can make concerted efforts in attracting, maintaining, and enhancing customer relationships. Third, relationship marketing embraces not just the supplier-customer dyad (Gummesson, 2002b) but encompasses the building of relationships with stakeholders, such as suppliers, internal employees, customers, and even government as well (Morgan & Hunt, 1994), but CRM is more dedicated to building relationships with key customers (Tuominen et al., 2005).

2.2 The Origin and Emergence of Customer Relationship Management

CRM is a concept that has its roots in the technology of sales automation and call centre operations and has been around since the mid-1990s. At that time, it was thought that merging customer data from the field (sales) with call centre interactions would result in more informed interactions with the customer (Battista, 2000). This evolved into “one-to-one marketing” which implies that, through interaction and processing, companies created more customized offers for their customers. In order to secure and manage these one-to-one relations, and to create a profitable and long-term relationship with the customers, CRM evolved (Buttle, 2000).

On a parallel track, internet-based tools such as e-commerce, Internet marketing (Yang & Fang, 2004), personalization (Jun & Cai, 2001) and self-help (Walters & Lancaster, 1999; Parasuraman et al., 2005) were evolving. Owing to the newness of the technology, these products competed outside of the CRM sphere and were referred to as “e-business”. When the concepts of CRM and e-business melded together (Light, 2003; Fjermestad & Romano, 2003; Bull, 2003), there was a short period where vendors, talked about eCRM and e-everything.

There has been an unprecedented resurgence of academic, as well as practitioner interest in CRM (Deshpande & Webster, 1989; Ryals & Payne, 2001; Abbott et al., 2001; Greenberg, 2002; Fjermestad & Romano, 2003). Wilson technology have produced a primarily practice-based and consultant-driven literature on managing customer relationships. Some examples are approaches that use databases (database marketing) and direct marketing activities (Shaw and Stone, 1988; Rapp & Collins, 1991; Peppers and Rogers, 1995; Shepard, 1995; Jenkinson, 1995; McKenna, 1995;
CRM with its antecedents in services marketing implies a shift from transaction-based marketing to a relational mode (Christopher et al., 1991; Gronroos, 1994; Berry, 1998; Buttle, 2000). CRM aims at lowering costs by keeping customers rather acquiring new ones. Hence, the use of vocabulary such as retention, loyalty and defection, yielding economic arguments like customer profitability and lifetime value of customers (Blattberg et al. 1991; Reichheld, 1996; Yen & Gwinner, 2003). Another focal point is serving smaller segments through individualization of a firm’s offerings, a process made possible by the advancements in information technology (Peppers & Rogers, 1993; Seybold & Marshak, 1998).

Customers display a different economic sense for different depictions of the “relationship marketing ladder of customer loyalty” (Payne, 2000; Egan, 2001). Once a customer has been acquired, the relationship with the company can develop in two fundamentally different directions depending on the level of customer satisfaction (Fournier, 1998; Jamal & Naser, 2002). Around 1990, particularly in the industrial sector, it was established that exchange processes occurred not only between two individual exchange parties, but also to a degree between several parties directly or indirectly in contact with each other. The result was that the attributes of interaction and networking became the subject of research on relationship marketing (Ford, 1990; Anderson et al., 1994; Haokansson & Snehota, 1995). At the beginning of the 1990s, an after-effect of analysis and discussion on customer relationships was that customer retention entered the centre stage of marketing research as marketing’s target parameter (Reichheld, 1996). Relationship marketing, originally applied only in the areas of capital assets and services, has since the tail-end of the last millennium been related to consumer goods also in that brand relationships are being considered as research elements (Fournier, 1998: Parvatiyar & Sheth, 2001).

The last decade has seen much attention devoted to the subject of strategic relationship management (Donaldson & O’Toole, 2002; Klink & Sjoberg, 2003). For example, (Zineldin, 2000), shows how relationship management and marketing becomes a powerful tool for developing long-term relationships with clients, suppliers and distributors (Gummesson, 1995 & 1999) on the view of potential
relationship categories. According to (Donaldson & O'Toole, 2002), Gummesson's model is similar to the concept of a "stakeholder partnership" in strategic management cited in (Freeman, 1983; Kay, 1993b). The recognition of key organizational interest groups and how these interests should be balanced are the core strategic issues. Gummesson's 30 relationships ("30Rs") show the potential domain of relationships as well as their multilayered, overlapping nature. Yet another approach is to conceptualize relationships as part of the pursuit of a more efficient supply chain, with an emphasis on developing closer relationships between channel participants. This minimizes the costs of transactions and, by implication, the entire supply chain (Robson & Rawnsley, 2001; Raymond, 2001; McLaren et al., 2002; Zhuang & Zhou, 2004).

To authors such as Christopher et al., (1991), a relationship-based approach appears to be a new way for marketing management to operate, based on a managerial perspective that is part of a quest to make the marketing effort more effective. In this regard, every customer relationship is important for profitability, with existing customers the lifeblood of a business organization and therefore paramount for the future direction of the business. To others, for example, (Gronroos, 1994), relationships are strategic, so that interactive marketing becomes a question of strategy and its origins, development and continuation being a strategic focus for the business organization.

Trust is seen as an expression of confidence between parties in the exchange that will not be harmed or put at risk by either party's actions (Blois, 1996; Jones & George, 1998; Humphrey & Schmitz, 1998; Sahay et al., 2001). Thus, trust allows firms to reduce or avoid reliance on costly formal monitoring mechanisms to maintain their partnership, encourages mutual concern for long-term benefits by partners, maintains flexibility, and allows for information exchange and mutual learning (Aulakh et al., 1996). Concepts such as honest dealing (Das & Teng, 1998) veracity, openness, acceptance, support and dialogue (Fukuyama, 1995) have been used to describe antecedent conditions for trust building among collaborating partners. Relationships exist through the retention of trust and commitment (Morgan & Hunt, 1994).

Consequently, interactions that lack the elements of trust and commitment do not develop into relationships. Social scientists have long recognized the centrality of
trust. The ability to trust enables humans to interact in close relationships and is essential for psychological health and development (Asch, 1952; Erikson, 1959; Barber, 1983). Trust is also important in business context exchanges such as buyer-seller relations, and employee-employer and other internal relationships (Blau, 1964; Kanter, 1977).

Despite recognition of the centrality of trust in human behavior, the nature of trust remains unclear because the focus of study has been on the antecedents and the outcomes of trust (Young & Wilkinson, 1989). Relationship constructs like commitment, trust (Morgan & Hunt, 1994) and relationship quality (Liljander & Strandvik, 1999; Guenzi & Pelloni, 2004; Woo & Ennew, 2004) have shifted into the midst of marketing science, to help shed light on the emergence of customer retention and long-term customer relationships. The research field of relationship termination, whose essence is the breaking-up and recovery of customer relationships, is being increasingly subsumed under relationship marketing (Keaveney, 1995; Strandvik & Tornroos, 1997; Liljander & Strandvik, 1999; Yooncheong et. al., 2003).

2.3 The Core Components of Customer Relationship Management Strategy

The content of a CRM strategy consists of six mutually dependent criteria (Donaldson & O'Toole, 2002). Emphasis on quality is the first one. Poor service is the dominant reason for losing business. The core product alone is no longer enough, and service quality is stressed as the key to successful business. There is a need to measure customer satisfaction but manage customer service. This implies understanding and defining the various benefits that a prospect expects prior to purchase and the management of the gap between expectations and performance after the purchase process. Investing in people is the third criteria. Internal relationships are as important as external relationships. Implementation of a relationship orientation can only come from the people in the organization understanding the objectives set and meeting the required standards. There is an important need to maintain dialogue with customers to enhance relationship building. Building long-term relationships is the key issue in CRM. Companies that listen and adapt to preferences of individual customers have a higher propensity to retain them and make them loyal. Setting realistic targets and assessing
performance is fifth criteria. Organizations must have an understanding of customer perceptions of the various elements in the offering and the elements important to each individual customer. The last criteria emphasize that **CRM strategy needs to be on relationship-based interfaces.** This means being in touch with both internal and external customers in a responsive and flexible manner. In practice, there is a gap between what firms do, what they should do, and what is most desirable to do. The means of communication should be adapted to the needs of the individual customer.

Accurate information comparing price and features of the various CRM offerings is hard to come by in the form of directory. Part of the difficulty arises because there are no standard definitions of what features are, and pricing models are getting very complex. This complexity is largely due to the options on how the service is provided. For example, the technical architecture, and whether the application is sold or provided as an ASP service, is two issues that affect the price. Further, the bigger players have a stake in not being too open about pricing models (Golterman, 2003). The best option is to work out precisely what your needs are, and then go to market to see how the vendors can meet those needs. Remember of course that in a typical CRM project, software fees represent just about 33% of the cost and services and integration / data migration costs make up the rest. Companies will be religious about CRM ROI and demand that CRM initiatives be supported by fact-based business case and value propositions (Merlinstone, 2001).

The results of the changes in CRM focus will affect technology selection in all customer-centric departments like marketing, sales and service. Although cost reduction will be a primary focus, revenue enhancement will remain important. Projects will be centered on quick, easy revenue targets and marginal enhancements to already-successful systems. Absolute spending levels are down across industries. However, there are still discernible investment trends that emphasize speed to ROI. Each industry approaches this through its own lens (Sharon & Clad, 2006).

Finally, there are at least two major growing trends in this market today: **analytics** and **security.** Indeed, firms will likely see an emphasis on establishing best practices and methods for collecting, organizing, qualifying, cleaning and analyzing data as it relates to obtaining customer intelligence (Shainesh, 2000). Based on these conclusions, CRM vendors must focus tightly on retaining existing customers while
still seeking out new business. This will put an even greater emphasis on delivering short-term return on investment (Agarwal, 2007).

2.4 The CRM Organization

CRM is a comprehensive strategy and process of acquiring, retaining and partnering with selective customers to create superior value for company and customer (Achrol & Ravi, 1997). CRM essentially means fundamental changes in the way that firms are organized (Ryals & Knox, 2001) and business processes are conducted (Hoffman & Kashmeri, 2000). Firms should pay heightened attention to the organizational challenges inherent in any CRM initiative (Agarwal et al., 2004). The key considerations to successfully organize the whole firm around CRM include organizational structure, commitment of resources, & human resources management.

Organizational structure: Having established the financial imperatives of building relationships for referrals to increase sales and loyalty to prevent defections, organizations will need to position CRM appropriately within the management structure to ensure the role is not plainly that of a delivery function but also of strategic in nature (Sheth et al., 2000). CRM requires that the entire organization work towards the common goal of forging and nurturing strong customer relationships. As such, the organizational structural designs that most effectively optimize customer relationships include the establishment of process teams, customer-focused teams (Sheth & Sisodia, 2002), cross-discipline segment teams, and cross-functional teams (Ryals & Knox, 2001). All these structural designs demand strong inter-functional coordination and inter-functional integration.

Human resources management: Several human resource decisions are important in creating the right organization and climate for managing relationship marketing, strategy, people, technology, and processes and all these are vitally important to CRM, but it is the individual employees who are the building blocks of customer relationships (Brown, 2000; Ryals & Knox, 2001; Horne, 2003; McGovern & Panaro, 2004). According to Krauss (2002), “the hardest part of becoming CRM-oriented isn’t the technology, it’s the people.” Internal marketing, where human resources and marketing interface instills in employees the utmost importance of service-mindedness and customer orientation (e.g. Gronroos, 1990). Training
employees to interact with customers, working in teams and managing relationship expectations are important. Relationship satisfaction for involved parties would include process satisfaction in addition to satisfaction from the results achieved in the relationship (Parvatiyar, 1998).

Commitment of resources: Organization-wide commitment of resources should follow creating the design of organizational structure and integrating properly those involved components. In particular, sales and marketing resources, technical expertise, as well as resources promoting service excellence should all be in place. The success of customer acquisition, development, retention, and reactivation all hinges on the company’s commitment of time and resources towards identifying and satisfying key customer needs (Nykamp, 2001).

To effectively implement a CRM solution, it is important to identify real knowledge about different types of customers from plethora of internal and external data, figures and surveys. It is essential to build knowledge architecture to give the organization a strategic advantage in design and implementation of a CRM solution (Evans, 1999).

Knowledge management: KM is a management discipline that treats intellectual capital as managed asset and it is about creating a central database that is a complete replica of all that is embedded in the system for employee’s use. It is about embracing a diversity of knowledge sources, like legacy systems, existing data warehouses, portals, websites, customers, suppliers, partners, external marketing research agencies and cultivating this knowledge where it resides. According to the knowledge-based view of the firm, the primary rationale for a firm’s existence is the creation, transfer, and application of knowledge. From a CRM perspective, knowledge can be understood as what has been learned from experience or empirical study of consumer data. Key facets of “knowledge management” include knowledge learning and generation, knowledge dissemination and sharing, and Knowledge responsiveness (Thomas, 2000).

Knowledge learning and generation: The key to successful knowledge learning and generation is the ability to abstract vital and meaningful knowledge from all sources available and ensuring its practical use. Knowledge about key customers is essential for CRM (Stefanou et al., 2003), as it can be used to develop a “learning
relationship” with customers (Zahay & Griffin, 2004) and thus profoundly enhance the competitiveness of a firm. Customer information like their needs and preferences may be captured both directly, and indirectly, through two-way communication in an interactive feedback system. The primary objective of knowledge generation is to afford a 360-degree customer view. Business intelligence tools like data mining, data warehouses, and data marts help firms incorporate customer information into strategic business intelligence.

Knowledge dissemination and sharing: The rapid advances in the field of information technology enhanced the knowledge creation and knowledge management process. Knowledge is of limited value unless it is shared throughout the organization (Schulz, 2001). Further, knowledge value escalates through dissemination and sharing (Slater & Narver, 1995; Hult & Ferrell, 1997). Organizations must develop sound mechanisms for sharing customer knowledge to facilitate concerted actions by different departments.

Knowledge responsiveness: As Peter Drucker defined,” Information is data endowed with relevance and purpose”. Knowledge responsiveness takes the form of acting on the knowledge generated and disseminated (Kohli & Jaworski, 1990). This encompasses selecting target segments, deliberately crafting the marketing mix in a manner that elicits favorable customer responses and meticulously customizing product and service offerings that address customers’ current and anticipated needs. As marketing is now more concerned with better responding to customer demand, actions taken in a prompt manner not only enhance service quality, but also foster long-term relationships with customers.

2.5 Technology-based CRM

Advances in Information Technology have helped firms adopt a more customer centric approach to leverage on their real competitive advantage. Information technology (IT) has long been recognized as an enabler to radically redesign business processes in order to achieve dramatic improvements in organizational performance (Porter, 1987; Davenport & Short, 1990). IT assists with the re-design of a business process by facilitating changes to work practices and establishing innovative methods to link a company with customers, suppliers and internal stakeholders (Hammer & Champy, 1993). Traditionally organizations have grown
by deploying IT to transfer physical processes onto digital medium to enhance productivity and response times.

IT played a crucial role in converging and speeding-up of CRM processes. CRM applications take full advantage of technology innovations with their ability to collect and analyze data on customer patterns, interpret customer behavior, develop predictive models, respond with timely and effective customized communications, and deliver product and service value to individual customers. Using technology to "optimize interactions" with customers, companies can create a 360 degree view of customers to learn from past interactions to optimize future ones (Eckerson & Watson, 2000).

With competition intensifying, the focus has been shifted to providing customers unique personalized services. This spawned new IT streams like ERP, Data warehousing and Internet marketing. Innovations in network infrastructure, client/server computing, and business intelligence applications are leading factors in CRM development. CRM solutions deliver repositories of customer data at a fraction of the cost of older network technologies. CRM systems accumulate, store, maintain, and distribute customer knowledge throughout the organization. The effective management of information has a crucial role to play in CRM. Information is critical for product tailoring, service innovation, consolidated views of customers, and calculating customer lifetime value (Peppard, 2000). Among others, data warehouses, enterprise resource planning (ERP) systems and the Internet is central infrastructures to CRM applications.

**Data Warehouse Technology**

Bill Inman's formal systems definition of data warehouse is a computer database and its supporting components that is: **Subject-oriented, Time-variant, Non-volatile and Integrated**, meaning that the data in the database is organized so that all the data elements relating to the same real world event or object are linked together. A data warehouse is an information technology management tool that gives business decision makers instant access to information by collecting "islands of customer data" throughout the organization by combining all database and operational systems such as human resources, sales and transaction processing systems, financials, inventory, purchasing, and marketing systems. Specifically, data
warehouses extract, clean, transform, and manage large volumes of data from multiple, heterogeneous systems, creating a historical record of all customer interactions (Eckerson & Watson, 2000).

The capability, coupled with user-friendly reporting tools and freedom from operational impacts, has led to a growth of data warehousing. The abilities to view and manipulate, set data warehouses apart from other computer systems. Constantly extracting knowledge about customers reduces the need for traditional marketing research tools such as customer surveys and focus groups. Thus, it is possible to identify and report by product or service, geographic region, distribution channel, customer group, and individual customer (Story, 1998).

Information related to billing and account status, customer service interactions, back orders, product shipment, product returns, claims history, and internal operating costs all can improve understanding of customers and their purchasing patterns. The ability of a data warehouse to store hundreds and thousands of gigabytes of data make drill-down analysis feasible as well as immediate. Information is then available to all customer contact points in the organization. Data warehousing technology makes CRM possible because it consolidates correlates and transforms customer data into customer intelligence that can be used to form a better understanding of customer behavior. Customer data includes all sales, promotions, and customer service activities (Shepard et al., 1998). In addition to transaction details, many other types of data generated from internal operations can make significant contributions.

### 2.6 Typical CRM System

A typical CRM system has three major fronts for the system work being planned. The first focus area **Interface** comprises the work to give system a customer centric view. It either must provide the sales representatives and the Sales Managers at the zone with a “desktop” screen, which shows the general information most commonly needed, and the option to enter system in its current form or organized around specific customers. The second area of focus is **Customer Information**. This addresses the issue of uploading information from Customer Call Interface (CCI) so that issues or new developments would be identified in the customer view by a one-
line identifier. The Third focus area is **Reports**. Here the primary area of frustration is navigation. There are too many reports (some different by a single parameter such as Gregorian calendar vs. Fiscal vs. Standard) for a person to swim through easily and the abundance of offerings becomes an impediment to getting to the information one needs. The offerings need to be trimmed down and the process for branching through the many options needs to be re-defined (Payne, 2000).

### 2.7 The Future of CRM

With the increased penetration of CRM philosophies in organizations and the concomitant rise in spending on people and products to implement them, it is clear we will see improvements in how companies work to establish long-term relationships with their customers. However, there is a big difference between spending money on these people and products and making it all work. Implementation of CRM practices is still far short of ideal (Russell, 2001). Competitive businesses are now adopting a new breed of CRM systems that infuse accurate and timely information from business information providers within traditional CRM systems. As a result, companies are leveraging the full potential of CRM technology in meeting their sales and prospecting objectives (Puckey, 2007).

CRM systems have evolved from information storage receptacles for managers into decision-making tools that benefit customer-facing staff. Initially, CRM was merely a management tool used to track the progress of sales activities. Early CRM systems were used by large organizations to maintain online information for customer service reps and sales staff. CRM systems soon grew into sales prospecting and customer relationship tools (Buttle, 2004). Information updates on how often a customer was contacted, whom the customer was contacted by, notes on competitors, or what was mentioned in a meeting all became important to hold within a CRM system. Sales, marketing and customer service representatives used these systems to understand customer behaviors in order to personalize interactions and ultimately, do a better job engaging with the customer. With the increase in multi-channel sales and marketing approaches, the role of CRM as a centralized customer data repository became even more important. However, implementing early CRM technology was no easy task. Most applications required extensive customization (Teklitz & McCarthey, 2005). Today, Web-based interfaces and easier rollouts have ushered in an era where CRM
startup costs are no longer a daunting proposition. As CRM, price-points have come down and user-friendly tools such as salesforce.com and other online CRM portals have become readily available, many small and medium-sized companies have been able to adopt CRM.

Companies are recognizing the importance of creating databases and getting creative at capturing customer information. Real-time analyses of customer behavior on the Web for better customer selection and targeting is already here (e.g. Net Perceptions), which permits companies to anticipate what customers are likely to buy. Companies will learn how to develop better communities around their brands, giving customers more incentives to identify themselves with those brands and exhibit higher levels of loyalty (Audrey, 2001).

With customer information availability, there exists the increased need to improve customer satisfaction and retention. CRM systems can aid in understanding a customer or segment to focus sales and marketing activities. Profitability is a key variable in determining cross-sell promotions, product pricing and packaging based on historical as well as future anticipated consumer information. Lifetime value will be better understood to allow organizations to think about potentially good prospects and the overall return on the relationship that is developed over time. CRM systems will be blended with operational and back-office systems to provide a seamless, real-time data environment (Brooks & Siefering, 2007). CRM will not only be about servicing the customer better, but also servicing the customer in the best interests of the customer as well as the business itself.

One way that some companies are developing an improved focus on CRM is through the establishment or consideration of splitting the marketing manager job into two parts. One for acquisition and the other one for retention. The kinds of skills that are needed for the two tasks are quite different. People skilled in acquisition have experience in the usual tactical aspects of marketing such as advertising and sales. However, the skills for retention can be quite different, as the job requires a better understanding of the underpinnings of satisfaction and loyalty for the particular product category. As a result, some companies have appointed a Chief Customer Officer (CCO) whose job focuses only on customer interactions (Valarie et al., 2001).
It is indisputable that customers are the number-one asset for most companies. Without them, there would be no sales, and so eventually no business. The idea behind customer relationship management (CRM) was to manage customer relationships in a personalized manner, across the enterprise and throughout the lifetime of the customer. In truth, though, the manner in which many businesses operate, as a collection of separate business units with the associated politics, often gets in the way (Goiterman, 2007). For CRM to work, companies must bring together a number of disparate processes, systems and types of data, regardless of where they reside, to deliver an integrated, unified view of the customer that drives a consistent approach to interactions that is proactive as well as reactive. The key is strong business intelligence (BI) focus on customer information (Stone, 2006). Once this exists, customer information, wherever it resides, will be available for analysis to provide insights and guide interactions across the enterprise.

The notion of customer information coupled with customer satisfaction is being expanded to change CRM to CEM i.e. Customer Experience Management. The idea behind this is that with the number of customer contact points increasing all the time, it is more critical than ever to measure the customer's reactions to these contacts and develop immediate responses to negative experiences. These responses could include timely apologies and special offers to compensate for unsatisfactory service. The idea is to expand the notion of a relationship from one that is transaction-based to one that is experiential and continuous (Adrian, 2001).

There are major obstacles to realizing the CRM dream. Multiple lines of business are involved, but processes rarely flow seamlessly across departmental boundaries. Departments need to share customer information, an act that can be both technically difficult and politically sensitive. Departments often have their own systems, and sometimes multiple versions of systems, housing customer data that should be common across departments and systems. Finally, many companies rely on their Web site to provide customers with information or to support customer self-service, but the site often is managed by yet another department, adding to the difficulty of keeping information up-to-date and consistent across all the various departmental systems (Heygate, 2006). Most of the companies have both enterprise resource planning (ERP) and CRM systems that contain core customer data. Despite the fact that most companies see customer data as the most important type of data, this dispersion makes
it unlikely that they have consistent customer data across all systems. One of the most common tactical ways of overcoming this issue is to implement a centralized data warehouse. With the warehouse being populated from so many disparate and unsynchronized systems, there is a good chance that the output reports and analysis will not be reliable.

Customer data could be treated as master data to avoid dispersion. The idea of master data is that one source (or system) is specified as the master set, and all other systems either must use the same set or be synchronized with the master set. As a result, companies would have a single set of customer data that would always be up-to-date and trustworthy (Xavier, 2007). As usual, technology alone is not the answer. To be sure, technology issues such as incompatible tools, multiple and unsynchronized metadata stores and an inability to audit the lineage of data can be a barrier to achieving reliable customer data. But equally, companies must address process issues, and they need to pay more attention to data stewardship and governance. There is in the contact center another significant issue, which is unstructured data. Centers have never been able to make full use of their primary source of data that is the recorded calls because they are not structured in a form that information systems can interpret. To say this has hampered customer relationships is more than an understatement. New technologies now available go one-step further by analyzing these calls in a way that can predict future customer behaviors, which opens up the possibility of proactively managing the relationship (Schmarzo & Harper, 2004). In practice, however, many companies struggle simply to extract data from all the structured sources they have in the center, with only a few are able to derive analytics from multiple data sources.

In looking toward the future of customer relationship management, there is a need for convergence of customer-focused MDM, data integration, data quality and analytics – a need, in other words, for the creation of BI-based customer information management. Better use of technology must be coupled with companies paying more attention to data governance and the processes that affect the management of customer data. More companies need to apply root cause analysis that takes into account all sources of data, structured and unstructured. Once in place, this capability will provide insight into the real reasons why customers are calling, allowing organizations to position them to improve their processes and truly manage customer relationships going forward (Brooks, 2006).
While CRM may already seem to be an old and jaded term, there is a bright future ahead that will bring new ways for small and mid-sized organizations to communicate, operate and strategize to manage their personnel, customers and prospects. There is an increased importance of customer touch points. Vertical solutions are another hot trend. There are different types of customers, different types of business models and selling strategies, and over time, there will be different CRM software to support these different models. What you had in the past was companies developing a tool set, and saying go and customize it for your industry. But now you have vendors coming into the market who will give you a 110 percent solution for a specific vertical. It can be predicted that in a few years, there will be no horizontal or generic CRM (Gokey et al., 2007).

Increased functionality in CRM suites coming soon, even as functions associated with CRM are cropping up elsewhere. The trend is that, it is an efficient versus effective issue. A lot of the attention has been focused on efficiency, like giving the sales rep more time to make average sales calls. The issue is really effectiveness (Dennis et al., 2006). CRM customers are also demanding more and more knowledge management functionality. Essentially, in the e-Business economy, you need to deliver customer organizational knowledge on demand, anytime anywhere. We are seeing a push to a lot more functionality being put into the CRM tools themselves. Lead tracking systems are great, but what is really wanted now are knowledge management systems, sales coaching systems, and service intelligence systems to help take the next step (Caruso, 2007).

As with any decision with substantial resource implications and effectiveness, a cost-benefit analysis of CRM investments must be performed. Marketing managers for frequently purchased products such as toothpaste are not as likely to find CRM investments paying out to the extent they will for computer servers, given the differences in difficulties of reaching customers and the profit margins of the respective products. However, even toothpaste companies are using the Web to attempt to differentiate their brands from the myriad others appearing in supermarkets and discount stores. This is evidence that there are perhaps few companies that cannot benefit from the CRM structure (Donald & Russell, 2001).

In short, the future of CRM is bright indeed. CRM will become deeply ingrained as a business strategy for most companies. Technology will evolve while technical and
organizational challenges are overcome. Much will change in the years ahead, but
one thing is certain: CRM is a journey, not a destination, and customers have their
hands on the road map and the steering wheel.

Part II Overview of Indian Insurance Sector

2.8 Introduction

The insurance sector in India has made a full circle from being an open competitive
market to nationalization and back to a liberalized market again. Insurance in India
used to be tightly regulated and monopolized by state-run insurers. Insurance is the
backbone of a country's risk management system. The insurance providers offer a
variety of products to businesses and individuals in order to provide protection from
risk and to ensure financial security. They are also an important component in the
financial intermediation chain of a country and are a source of long-term capital for
infrastructure and long-term projects. Through their participation in financial
markets, they also provide support in stabilizing the markets by evening out
fluctuations (Jha, 2002).

Following the move towards economic reform in the early 1990s, various plans to
revamp the sector finally resulted in the passage of the Insurance Regulatory and
Development Authority (IRDA) Act of 1999. Significantly, the insurance business
was opened on two fronts. Firstly, domestic private-sector companies were
permitted to enter both life and non-life insurance business. Secondly, foreign
companies were allowed to participate, albeit with a cap on shareholding at 26%.
With the introduction of the 1999 IRDA Act, the insurance sector joined a set of
other economic sectors on the growth march (Baldwin & Ben, 1996).

Tracing the developments in the Indian insurance sector reveals the 360-degree turn
witnessed over a period of almost two centuries. The Insurance sector in India is
governed by Insurance Act, 1938, the Life Insurance Corporation Act, 1956 and
General Insurance Business (Nationalisation) Act, 1972, Insurance Regulatory and

Today it stands as a business growing at the rate of 15-20 per cent annually.
Together with banking services, it adds about 7 per cent to the country's GDP. In
spite of all this growth the statistics of the penetration of the insurance in the country
is very poor. With such a large population and the untapped market area of this population, Insurance happens to be a very big opportunity in India. Nearly 80% of Indian populations are without Life insurance cover and the Health insurance (Insurance Institute of India, 2001). This is an indicator that growth potential for the insurance sector is immense in India. It was due to this immense growth that the regulations were introduced in the insurance sector and in continuation “Malhotra Committee” was constituted by the government in 1993 to examine the various aspects of the industry and creating a more efficient and competitive financial system suitable for the requirements of the economy was the main idea behind this reform. The key element of the reform process was participation of overseas insurance companies with 26% capital (Bhandari, 2001).

Since the reforms, the insurance industry has gone through much sea changes. The competition LIC started facing from these companies were threatening to the existence of LIC. Since the liberalization of the industry the insurance industry has never looked back and today stand as the one of the most competitive and exploring industry in India (Zervoudis, 2000). The entry of the private players and the increased use of the new distribution are in the limelight today. The use of new distribution techniques and the IT tools has increased the scope of the industry in the longer run.

The insurance business is broadly divided into life, health, and non-life insurance. Individuals, families, and businesses face risks of premature death, depletion in income because of retirement, health risks, loss of property, risk of legal liability, etc. The insurance companies offer life insurance, pension and retirement income, property insurance, legal liability insurance, etc., to cover these risks. In addition, they offer several specialized products to meet the specific needs and requirements of businesses and individuals. Businesses also depend on these companies for various property and liability covers, employee compensation, and marine insurance (Misra, 2005).

2.9 HISTORICAL PERSPECTIVE- INDIAN INSURANCE MARKET

Insurance has a long history in India. Life Insurance in its current form was introduced in 1818, when Oriental Life Insurance Company began its operations in
India. General Insurance was however a comparatively late entrant in 1850 when Triton Insurance company set up its base in Kolkata. History of Insurance in India can be broadly bifurcated into three eras: a) Pre Nationalization b) Nationalization and c) Post Nationalization. Life Insurance was the first to be nationalized in 1956. Life Insurance Corporation of India was formed by consolidating the operations of various insurance companies. General Insurance followed suit and was nationalized in 1973 (Jha, 2000). General Insurance Corporation of India was set up as the controlling body with New India, United India, National and Oriental as its subsidiaries.

The process of opening up the insurance sector was initiated against the background of Economic Reform process, which commenced from 1991. For this purpose, Malhotra Committee was formed during this year who submitted their report in 1994 and Insurance Regulatory Development Act (IRDA) was passed in 1999. The process of reforms initiated some years ago has some achievements to its credit. It has enhanced competition, provided a choice to the customers, triggered innovative ways and means to carry out insurance activities, improved the efficiency level of the industry, increased the coverage of insurance in terms of density and penetration, obligated the insurers to provide for the needs of social and rural sectors, and increased awareness about the necessity of insurance, to name a few (Sudhak, 1997). Resultantly, Indian insurance was opened for private companies and Private Insurance Company effectively started operations from 2001.

2.10 PRESENT SCENARIO OF INSURANCE INDUSTRY

There are now 29 insurance companies operating in the Indian market – 14 private life insurers, nine private non-life insurers and six public sector companies. With many more joint ventures in the offing, the insurance industry in India today stands at a crossroads as competition intensifies and companies prepare survival strategies in a de-tariffed scenario. India with about 200 million middle class household shows a huge untapped potential for players in the insurance industry. Saturation of markets in many developed economies has made the Indian market even more attractive for global insurance majors (Dipendra, 2006). The insurance sector in India has come to a position of very high potential and competitiveness in the market. Indians, have always seen life insurance as a tax saving device, are now suddenly
turning to the private sector that are providing them new products and variety for their choice.

The insurance sector was opened up for private participation four years ago. For years now, the private players are active in the liberalized environment. The insurance market have witnessed dynamic changes which includes presence of a large number of insurers both life and non-life segment. Most of the private insurance companies have formed joint venture collaborating well-recognized foreign players across the globe. There is pressure from both within the country and outside on the Government to increase the foreign direct investment (FDI) limit, which would help JV partners to bring in funds for expansion (Baldwin, 2002).

There are opportunities in the pensions sector where regulations are being framed. Less than 10% of Indians above the age of 60 receive pensions. The health insurance sector has tremendous growth potential, and as it matures and new players enter, product innovation and enhancement will increase. The deepening of the health database over time will also allow players to develop and price products for larger segments of society (Sengupta, 2003). However, the achievements until date need to be built upon to further improve the efficiency of the insurance sector thereby reducing the costs and increasing the penetration particularly in rural and semi-urban areas. For this purpose, factors like strengthening of the distribution network, designing of products that would meet the characteristics of different segments of the population and formulating and implementing specific strategies are critical (Insurance Institute of India, 2001).

Consumers remain the most important centre of the insurance sector. After the entry of the foreign players, the industry is seeing a lot of competition and thus improvement of the customer service in the industry. Computerization of operations and updating of technology has become imperative in the current scenario. Foreign players are bringing in international best practices in service through use of latest technologies (Pant, 2000). The insurance agents remain the main source through which insurance products are sold. The concept is very well established in the country like India but still the increasing use of other sources is imperative. At present, the distribution channels that are available in the market are direct selling, corporate agents, group selling, brokers and cooperative societies and finally bancassurance. Customers have tremendous choice from a large variety of products
from pure term (risk) insurance to unit-linked investment products. Customers are offered unbundled products with a variety of benefits as riders from which they can choose. More customers are buying products and services based on their true needs and not just traditional money-back policies, which is not considered very appropriate for long-term protection and savings (Vaidyanathan, 2006). There is lots of saving and investment plans in the market. However, there are still some key new products yet to be introduced.

The rural consumer is now exhibiting an increasing propensity for insurance products. A research conducted exhibited that the rural consumers are willing to dole out anything between Rs 3,500 and Rs 2,900 as premium each year. In the insurance, the awareness level for life insurance is the highest in rural India, but the consumers are also aware about motor, accidents and cattle insurance. The private companies have huge task to play in creating awareness and credibility among the rural populace. (Vijayakumar, 2007).

The present insurance scenario is characterized by intense competition. In a de-tariffed environment, competition will manifest itself in prices, products, underwriting criteria, innovative sales methods and credit worthiness. Insurance companies will vie with each other to capture market share through better pricing and client segmentation. There is an increased attention on customer centric initiatives. The customer profile in the insurance industry is changing with the introduction of large number of divergent intermediaries such as brokers, corporate agents, and banc assurance. The industry now deals with customers who know what they want and when, and are more demanding in terms of better service and speedier responses. With the industry facing a more competitive environment, there will be considerable improvement in customer service levels, product innovation and newer standards of underwriting. While the world is eyeing India for growth and expansion, Indian companies are becoming increasingly world class. Take the case of LIC, which has set its sight on becoming a major global player following a Rs.280-crore investment from the Indian government. The company now operates in Mauritius, Fiji, the UK, Sri Lanka, and Nepal and will soon start operations in Saudi Arabia. It also plans to venture into the African and Asia-Pacific regions. With regard to the Indian insurers turning global players, the Indian insurance companies are themselves beginning to come to terms with the dynamics of a continent like
India and it would be some time before we can be a part of the global ventures. However, the experiments in India would act as a reference frame for our foreign partners as they make forays into other nations. With robust reinsurance programmes in place, insurers have successfully managed to tide over the crisis without any adverse impact on their balance sheets. There is an increased domination by state insurers. India with a population of over one billion is always open for many more players in a large underinsured market. However, the reality is that the intense competition in the last five years has made it difficult for new entrants to keep pace with the leaders and thereby failing to make any impact in the market (Sinha, 2000).

The key competitive and risk pressures that the industry would experience involves factors like multi-channel distribution footprint. Understanding the science of multi-distribution channel management and developing a robust field footprint will remain the most distinctive competitive challenges for the new age insurers. Managing the expectations of channel partners, viz., banks, corporate agents, brokers, and advisory force, and keeping the acquisition costs at manageable proportions at the same time will help the new players reach break-even relatively sooner (Ansari, 2000). A key driver of growth in a long-term business like life insurance, technological advancement will be critical to functions like data management, underwriting, fund management, actuarial efficiency, and the end-to-end service delivery process (Mitra, 2004).

Insurance is an intensively people-oriented business and human resources will be the undoubted differentiator like in any other retail industry. Expertise in fund management is the value proposition that any insurance company offers and the quality of asset-liability management (ALM) in a falling or stable interest rate regime will thus be a key challenge (Sawyer & Jeffery, 2005). Acquisition costs which is a sum of technological, operational, and distribution costs, will be the key differentiating factor in the initial years. While for a majority of the new insurers, intermediary costs of distribution have already absorbed the initial hits on the technology and process costs is a critical variable. The battle has so far been fought in the big urban cities, but in the next few years, increased competition will drive insurers to rural and semi-urban markets (Meder & Robert, 2001).
2.11 Insurance Development and Potential

Notwithstanding the rapid growth of the sector over the last decade, insurance in India remains at an early stage of development. At the end of 2003, the Indian insurance market (in terms of premium volume) was the 19th largest in the world, only slightly bigger than that of Denmark and comparable to that of Ireland. This was despite India being the second most populous country in the world as well as the 12th largest economy. Yet, there are strong arguments in favor of sustained rapid insurance business growth in the coming years, including India’s robust economic growth prospects and the nation’s high savings rates (Ashik, 2007). The dynamic growth of insurance buying is partly affected by the (changing) income elasticity of insurance demand. It has been shown that insurance penetration and per capita income have a strong non-linear relationship. Based on this relation and other considerations, it can be postulated that by 2014 the penetration of life insurance in India will increase to 4.4% and that of non-life insurance to 0.9%, (Table 2.1) (Sinha, 2004).

Table 2.1: Projection of Life Insurance and Non-Life Insurance Premiums, 2004-2014

<table>
<thead>
<tr>
<th>Year</th>
<th>Life Insurance</th>
<th>Non-Life Insurance</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>INR m</td>
<td>INR m, constant 2004 prices</td>
</tr>
<tr>
<td>2004</td>
<td>749971</td>
<td>749971</td>
</tr>
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<td>2005</td>
<td>871672</td>
<td>934136</td>
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<td>2006</td>
<td>1025957</td>
<td>934358</td>
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<td>2007</td>
<td>1201425</td>
<td>1042105</td>
</tr>
<tr>
<td>2008</td>
<td>1403362</td>
<td>1159284</td>
</tr>
<tr>
<td>2009</td>
<td>1667814</td>
<td>1312134</td>
</tr>
<tr>
<td>2010</td>
<td>1983051</td>
<td>1485832</td>
</tr>
<tr>
<td>2011</td>
<td>2366576</td>
<td>1688756</td>
</tr>
<tr>
<td>2012</td>
<td>2804561</td>
<td>1905996</td>
</tr>
<tr>
<td>2013</td>
<td>3326543</td>
<td>2153072</td>
</tr>
<tr>
<td>2014</td>
<td>3947899</td>
<td>2433548</td>
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2.12 Some Areas of Future Growth

The traditional life insurance business for the LIC has been a little more than a savings policy. Term life (where the insurance company pays a predetermined amount if the policyholder dies within a given time but it pays nothing if the
policyholder does not die) has accounted for less than 2% of the insurance premium of the LIC (Mitra & Nayak, 2006). For the new life insurance companies, term life policies would be the main line of business.

Health insurance expenditure in India is roughly 6% of GDP, much higher than most other countries with the same level of economic development. Of that, 4.7% is private and the rest is public. What is even more striking is that 4.5% are out of pocket expenditure (Berman, 2006). There has been an almost total failure of the public health care system in India. This creates an opportunity for the new insurance companies. Thus, private insurance companies will be able to sell health insurance to a vast number of families who would like to have health care cover but do not have it.

The pension system in India is in its infancy. There are generally three forms of plans: provident funds, gratuities and pension funds. Most of the pension schemes are confined to government employees (and some large companies). The vast majority of workers are in the informal sector. As a result, most workers do not have any retirement benefits to fall back on after retirement. Total assets of all the pension plans in India amount to less than USD 40 billion. Therefore, there is a huge scope for the development of pension funds in India (Roy, 2007).

2.13 Keys to Ensuring Growth

The key to market growth is through an integrated approach, which includes creating awareness about insurance, enhancing reach through cost-effective distribution, and meeting customer needs through product innovation. A two-fold approach is required while adopting these drivers of growth. Increase the depth of penetration in existing product-market segments and drive the width of penetration leading to market expansion by targeting new segments. Given the complexity of the industry, insurers will have to adopt a multiproduct, multi-channel, and multi-segment route to the market to achieve these objectives (Bhandari, 2005).

Awareness creation must be in line with the creation of distribution reach to ensure that the last mile fulfilment loop is closed. The conventional distribution network comprises of physical networks of branches (direct channel) and agents tied to the insurance companies. In the future, there will be a plethora of channels allowing the
customer to choose which channel he is most comfortable with. The options include agents, brokers, direct field force, telesales, bancassurance, alliances, and the internet (Singh, 2006). With the advent of broking regulations in 2002, brokers have emerged as an important channel in the corporate segment. Worldwide, brokers control close to 80 per cent of the corporate business with the top two controlling more than half the total broking market.

Bancassurance is also gaining prominence. Nearly 60 per cent of the life insurance sold in the European countries is through this channel (Singh, 2006). Bancassurance relies upon the vast distribution reach of banks and since they are in the business of providing financial solutions, insurance ties in nicely with the product basket. The insurance companies gain through access to an established network, familiarity of channel with financial products, and access to capital. Banks gain through an enhanced product offering, fee income, and better utilization of their channels. On the retail front, there is a shift worldwide to virtual channels like telemarketing and the Internet, which offer the twin benefits of unimpeded reach for the customers and low set-up costs for the insurer. Most of these distribution channels are gaining prominence in India (Amit, 2008). As insurers seek to increase their market share and provide better service to their customers, they will increasingly explore these alternate channels of delivery to provide them with the necessary flexibility.

In addition, most customers who have taken insurance of some sort are usually under-insured in terms of the potential risks that they are exposed. This applies to individuals as well as corporate and insurers must constantly educate their customers on the need for adequate coverage. There are also a large number of underserved segments such as senior citizens, rural markets, and NRIs whose needs are still unmet. The appropriate product solution delivered through the right channels will be the key to penetrate these markets.

Insurance products can easily be copied thereby limiting differentiation at the product level. In such a scenario, competitive advantage will be gained through constant product innovation, cost effective distribution, and quality of service delivery (Ansari, 2005). This will allow the insurer to differentiate the overall value proposition offered to the customer and to adopt a pricing model based on the perceived value as against discounting.
The effective deployment of IT is a key business driver with its ability to substantially reduce operating and distribution costs while providing scalability. The strategic benefits of technology programmes such as straight through processing, enterprise application integration, and customer relationship management are well known but delivering the expected ROI on these investments is a key challenge (Jha, 2006). Success in this area will be determined by an approach where IT is seen as a business enabler and where ownership of technology projects rests with the businesses rather than with the IT department alone.

2.14 Application of Information Technology in Insurance Sector

What makes the life insurance industry different from the other financial services is the long-term nature of the relationship of the company with its customers, often lasting a lifetime. The leaps in technology have helped us track the relationship with the customer and given us the information to analyze the changing needs/profile of the consumer. Moreover, the life insurance business is highly complex with the evolving statutory regulations that IT systems must deal with. Also with the emergence of multiple channels such as bancassurance, corporate agency, and broking, the company’s IT systems need to be adapted with the systems of the channel partners without compromising the information flow (Porter, 2005).

There is an evolutionary change in the technology that has revolutionized the entire insurance sector. Insurance industry is a data-rich industry, and thus, there is a need to use the data for trend analysis and personalization. With increased competition among insurers, service has become a key issue. Moreover, customers are getting increasingly sophisticated and tech-savvy. People today do not want to accept the current value propositions, they want personalized interactions and they look for more and more features, add ones, and better service (Sonig, 2007).

Some key benefits of technology have been reduction in turnaround time as well as multiple interaction points with the customer through emails, facsimile, websites, and ATMs, to name a few, which have resulted in improved disclosure to policy holders. The insurance companies today must meet the need of the hour for more and more personalized approach for handling the customer. Today managing the customer intelligently is very critical for the insurer especially in the very
competitive environment. Companies need to apply different set of rules and
treatment strategies to different customer segments. However, to personalize
interactions, insurers are required to capture customer information in an integrated
system (Roy, 2005).

With the explosion of website and greater access to direct product or policy
information, there is a need to developing better techniques to give customers a truly
personalized experience. Personalization helps organizations to reach their
customers with more impact and to generate new revenue through cross selling and
up selling activities. To ensure that the customers are receiving personalized
information, many organizations are incorporating knowledge database-repositories
of content that typically include a search engine and let the customers locate the all
document and information related to their queries of request for services (Johri,
2005). Customers can hereby use the knowledge database to manage their products or
the company information and invoices, claim records, and histories of the service
inquiry. These products also may be able to learn from the customer’s previous
knowledge database and to use their information when determining the relevance to
the customers search request.

2.15 Customer Service

Indian insurers in the public sector are responding slowly. Regulations have helped
achieve standards of disclosure. Here again, in the life insurance sector, both LIC
and the new companies seem to have set high standards in settlement of claims. The
general insurance sector has shown mixed performance perhaps due to the inherent
nature of the business. While the private sector general insurance companies have
set good standards for claims settlement, the public sector insurers are yet to show
resilience in the changed environment. This is sure to cause further dissatisfaction
and consequent loss of good business (Johri, 2004).

As per the Malhotra committee, LIC should pay interest on delays in payments
beyond 30 days; Insurance companies must be encouraged to set up unit linked
pension plans; Computerization of operations and updating of technology to be
carried out in the insurance industry. The committee emphasized that in order to
improve the customer services and increase accessibility of the various insurance
products in India, the insurance industry should be opened up to competition.
However, at the same time, the committee felt the need to exercise caution as any failure on the part of new players could ruin the public confidence in the industry. Hence, it was decided to allow competition in a limited way by stipulating the minimum capital requirement of Rs.100 crore. The committee felt the need to provide greater autonomy to insurance companies in order to improve their performance and enable them to act as independent companies with economic motives. For this purpose, it had proposed setting up an independent regulatory body, The Insurance Regulatory and Development Authority (IRDA). Reforms in the insurance sector were initiated with the passage of the IRDA Bill in Parliament in December 1999. The IRDA since its incorporation as a statutory body in April 2000 has fastidiously stuck to its schedule of framing regulations and registering the private sector insurance companies (Insurance Institute of India, 2007).

In the short time since the market has been opened, the private sector companies have set a completely new paradigm of service in both life and general insurance sectors. All companies have come up with benchmarks for each aspect of service and internal measurement of quality. For instance, the structure, content, and appearance of documentation are comparable to any in the world. Best practices aimed at informing the customer in a transparent manner have indeed been brought in. These are more in evidence in life insurance possibly because of the long-term nature of the business. Though structural inefficiencies are stated as reasons for such a situation, the main cause seems to be a pervasive attitude problem coupled with a need for transparency in claims handling (Berry, 2006).

The other decision taken simultaneously to provide the supporting systems to the insurance sector and in particular the life insurance companies was the launch of the IRDA's online service for issue and renewal of licenses to agents. The approval of institutions for imparting training to agents has also ensured that the insurance companies would have a trained workforce with high degree of technical competence and capacity to work efficiently as insurance agents to sell their products (Sinha, 2001). Since being set up as an independent statutory body the IRDA has put in a framework of globally compatible regulations and has been working closely with all the stakeholders including consumer organizations like VOICE Society.
India is among the most promising emerging insurance markets in the world. Its current premium volume of USD 18 billion has the potential to increase to USD 90 billion within the next decade. In particular, life insurance, which currently makes up 80% of premiums, is widely tipped to lead the growth. The major drivers include sound economic fundamentals, a rising middle-income class, an improving regulatory framework and rising risk awareness (Dasgupta, 2006).

In the life sector, insurers will need to increase efforts to design new products that are suitable for the market and make use of innovative distribution channels to reach a broader range of the population. There is huge untapped potential, for example, in the largely undeveloped private pension market. Now, less than 11% of the working population in India is eligible for participation in any formal old-age retirement scheme. Private insurers will have a key role to play in serving the large number of informal sector workers (Kumari, 2006). The same is true for the health insurance business. In addition, the rapid growth of insurance business will put increasing pressure on insurers’ capital level. The current equity holding ceilings, however, could limit the ability of new companies to rapidly inject capital to match business growth.

A key challenge for India’s non-life insurance sector will be to reform the existing tariff structure. From a pricing perspective, the Indian non-life segment is still heavily regulated. Some 75% of premiums are generated under the tariff system, which means that they are often below market clearing levels. Price liberalization will be needed to improve underwriting efficiency and risk management (Nurpuri, 2005). It is also the responsibility of non-life insurers to help manage India’s high exposure to natural catastrophes. To do this, technical expertise and financial capability are imperative. International reinsurance could provide both, but there is currently only a limited scope for global reinsures to transfer risk efficiently in India now (Patel, 2007).

Reinsurance in India is mainly provided by the General Insurance Corporation of India (GIC), which receives 20% compulsory cessions from other non-life insurers. As far as reinsurance is concerned, policymakers have to recognize that insurance and reinsurance cannot be treated in the same manner. Due to the unique nature of reinsurance, it is necessary to de-link the sector from regulations governing direct insurance companies (Mitra, 2005). To allow branching of foreign re-insurers, for
example, would make the market more attractive for international players and secure cover for natural catastrophe risks which, today, are mainly uninsured.

In a recent study, Swiss Re mentions that India (and China) would create many opportunities for the development of insurance backed by regulations in line with international best practices. Pension business is on the verge of a new set of government initiatives aimed at providing old-age security to vast segments of society. Developments are expected very soon. The opening up of this sector has been a great success. There is no doubt that, in a decade, Indian insurance market will be among the front-runners in the world (Roy & Abhijit, 2007).

Finally, the largely underserved rural sector holds great promise for both life and non-life insurers. To unleash this potential, insurance companies will need to show long-term commitment to the sector, design products that are suitable for the rural population and utilize appropriate distribution mechanisms. Insurers will have to pay special attention to the characteristics of the rural labour force, like the prevalence of irregular income streams and preference for simple products, before they can successfully penetrate this sector.

The insurance sector will grow steadily rather than rapidly. The law and regulations in place are adequate to ensure financial strength and solvency of insurers. The regulator's challenge lies in monitoring compliance to the several requirements. Delay in taking steps against erring parties would erode the credibility of regulations and customer confidence. In these four years since opening up, new insurance companies have faced the challenge of convincing an average customer that the commitments under the polices will be met by the new companies and that their stability is no less than that of the public sector companies. This depends largely on the credibility of the regulations and the regulator (Roy & Samit, 2007). Early detection of problems and quick solutions are vital for maintaining the confidence of the average consumer.

*IRDA (Insurance Regulatory and Development Authority, which was constituted by an act of parliament) specify the composition of Authority as a ten member team consisting of (a) a Chairman; (b) five whole-time members; (c) four part-time members,(all appointed by the Government of India). Section 14 of IRDA Act, 1999 lays down the duties, powers and functions of IRDA (1) Subject to the provisions of this Act and any other law for the time being in force, the Authority shall have the duty to regulate, promote and ensure orderly growth of the insurance business and re-insurance business.
Part III Research Carried out in the Field of CRM Practices in the Insurance Sector

2.16 Need for CRM in Insurance

A customer relationship management (CRM) solution brings a systems-driven approach to business, identifying and repeating proven techniques to maximize efficiency. CRM is a business strategy that helps organizations cope with three of today's most urgent business imperatives like, generating new growth, attaining operational excellence, and enhancing competitive agility (Smith, 2005).

CRM offers detailed consumer information to individual staff members, while allowing for more effective management of the sales process as a whole by management. Sales and customer care should be complementary goals of any customer relationship management initiative. Therefore, the CRM features that facilitate sales force effectiveness need to be a key part of the search for any customer relationship management system. The idea of CRM constantly evolves, and it is helpful to understand customer relationship management and to provide a context for choosing the CRM solution features that meet an organization's needs and goals (Bitran & Mondschein, 2003).

For insurance companies, competition in the marketplace is definitely heating up. Struggling against increasingly fickle consumer behavior, insurance companies are realizing that to stay ahead, they need to discover the sustained customer loyalty. However, to forge stronger relations with their clients to try to engender loyalty from them, insurance sector need to embark upon a more concerted customer relationship effort. This is beneficial in a number of ways - it enables them to find the balance of cross selling the right products to customers and tying them in to longer-term relationships. Cultivating relationships with existing clients is also far more cost effective than finding new ones - estimates say that it is five times cheaper to keep existing customers than hunt new ones down (Jagannath, 2006).

Customer promiscuity is on the increase in every industry and the insurance sector is no different. As competition gets tougher, insurance companies have to initiate good customer strategies - this includes embracing the technology that allows them to do it effectively. The insurance firms which will stay ahead of the game are those that step up to the mark in terms of customer management and that put customers and their requirements at the centre of their businesses will be far more likely to succeed.
than those who shun what is often considered the softer side of business, to rely on spasmodic sales tactics and uncoordinated efforts. However, managing customers effectively can be a daunting task and even some of the biggest companies struggle to do it effectively (Antonides & Raaij, 1998).

Most other sectors are extremely customer-centric and manage customers very effectively. This only serves to set a precedent of customer service that insurance sector needs to attain in order to make any lasting impression on the customer. Customers are finally realizing that rather than being at the mercy of their suppliers it is they who are in a strong position and consequently are demanding more - insurance professionals need to realize this and meet the high service levels that customers are expecting (Karin et al., 2005)

2.17 Background

Customer Relationship Management (CRM) is the principle technology used to interact with customers and as such is the most important tool in retaining them. Embracing the latest CRM technologies is not optional - it is essential if insurance companies want to keep a step ahead in the marketplace. It is not just the big multinationals that need to implement this technology. CRM is often associated with call centers, but in reality it has far wider (Sowinski, 2000) reaching applications and should have a pivotal role in the customer management strategies of insurance broking companies of all sizes.

In the past, CRM has been an ambiguous term used to describe any customer interaction. However, as it matures as a business and technological process, more insurance companies are beginning to realize that it refers to how a company manages its customers effectively, underpinned by the relevant technology. Whilst there is no blueprint to CRM and no one solution that will be suitable to all insurance businesses, there are important factors that insurance firms need to bear in mind in their approach to CRM. These include identifying factors that are important to clients. Customers and their requirements should be the focal point of the business and a good CRM strategy. Organizations need to promote a customer-oriented philosophy. This should be a policy, approach that insurance brokers are aware of, and adhere to at all times (Battista & Verhun, 2000). There is a need to develop end-
to-end processes to serve customers. A 360° view is essential in order to get a complete picture of the customer and make accurate inferences. Companies have to provide successful and insightful customer support. Letting a customer down when they need help the most is often the death knell in a supplier/customer relationship. Tracking all aspects of sales allows a company to gather effective intelligence on what works and what doesn't with different types of customer and completes a customer history to help achieve a 360° view (Das, 2007).

Most insurance companies would agree that CRM is important to them but achieving a successful CRM system is something that needs careful attention. Previously CRM was a stand-alone technology but it can now be fully integrated with other business systems. Integration with the relevant client databases will ensure more cross selling opportunities for insurance professionals. Tying all systems together ensures greater efficiency, which ultimately serves to save time and consequently money and gives the customer a better experience (Janny, 2004).

CRM is always evolving and the systems of the future will become more and more sophisticated. As insurance firms strive to attract and retain an increasingly fickle customer base, CRM will become core to their overall business strategy. CRM strategies are resource draining. There are solutions out there for companies, whatever their size (Bult & Wansbeek, 2004). The fact remains that in order to stay afloat, insurance companies must invest in an intelligent and effective approach to CRM.

The insurance industry is hyper-competitive with new players entering the market regularly. Add to that a selling process that is far from easy, and an IT infrastructure that needs to address the needs of hundreds, or even thousands of branch offices, and it is easy to see the myriad of internal and external challenges. Amid all of that, however, insurance firms are expected to succeed by forging better relationships. Leveraging CRM solutions, help insurance firms close the communication loop by providing your customer-centered employees with the tools necessary to meet policyholder needs by offering, delivering, and servicing the products, they demand (Insurance & Technology, 2006).

Two primary policyholder factors are the foundation to long-term success for insurance companies; effective cross selling and lower attrition rates. The
underlying proponents that drive these actions are the continuous ability to develop the services and products that policyholders need and the means by which to effectively communicate how those solutions fulfill policyholder needs. By leveraging real-time analytic capabilities, insurance CRM can assist customer contact professionals in maximizing inbound calls with permission-based solutions that help them to recommend offers that policyholders are likely to find beneficial (Zahay, 2004). Combined with legacy systems integration, the keys to better performance are available with CRM solutions for insurance.

Effective marketing functions at a level that appeals to the masses, but satisfies the needs of individuals are necessary for effective relationship building. This is especially true for the insurance industry. Marketing solutions from insurance CRM allow CSRs to make real-time decisions that deliver optimal opportunities for every customer, every time. Further, CRM solutions for insurance allow insurance firms to realize a tighter synergy between inbound and outbound communication channels to maximize the impact of marketing campaigns. Insurance CRM automation tools facilitate more productive conversations by automatically presenting relevant customer information at the right times. This level of sales support leads to higher levels and sales productivity while simultaneously shortening sales cycles for a higher level of profitability and customer satisfaction (Berson, 2001).

Customer calls can be unpredictable, ranging from upset policyholders looking for resolution to a problem, or potential customers who are looking for insurance firms to provide a solution that their current insurance provider does not. If you can provide the right service and the right solution, your contact center becomes a profit center that satisfies policyholders while driving growth (Abbott et al., 2001). Improving Customer Information through (CRM) can result in surprising hidden benefits, but insurance firms need to target operational focus to leverage the opportunity. To date insurance firms have approached CRM with the single goal of improving customer knowledge to drive sales strategies. Understanding your customer has meant, in essence, easy access to consistent information about sales history. As a result, too many insurance companies have been sold CRM as an extension to the 'contact management' concept, and have therefore focused on delivering customer information to sales-people. This information of course has value (Peter, 2001).
Tracking customer buying patterns is a key tool in proactively managing the customer relationship and spotting early any potential problems with that relationship that may result in customer loss. Additionally, sales people can leverage this information to facilitate the cross selling and up-selling that is key to increasing the customer value, a vital factor in managing insurance business success (Boyle, 2004). However, this exclusive focus on sales not only constrains the scope of the project, it also significantly undermines the potential benefits and overall value that can be gained.

This is particularly relevant in the current challenging insurance environment where making the business run as efficiently as possible can be as much an operational focus as retaining and increasing sales. By pulling information from finance, sales, marketing, even support into a central, customer focused database, an insurance firm can attain significant insight into business performance and attain attendant benefits including enhanced financial control, improved forecasting and in depth business understanding (Chib & Greenberg, 2005). It is clear that CRM offers so much more than the contact management systems of the past, but it is applicable only for those insurance organizations that can successfully embrace an open culture underpinned by access to the key business systems. The increased automation of company records initiated widespread changes in the first customer relationship management systems.

The most significant developments in insurance CRM include the centralization of information. While the original idea of disseminating information to individual users remained important, organizations quickly realized the value of compiling and analyzing aggregate data. In turn, this helped management orchestrate sales and marketing strategies. There is a growth of hosted solutions. As confidence in Web security grew, hosted solutions acquired a larger segment of the CRM market. Hosted solutions offered a more cost-effective way to manage information. Not only did they cut upfront costs, but they also reduced the cost of ongoing maintenance. Hosting also can facilitate interaction between multiple locations. The Systems have become modular. More and more systems were designed modularly, allowing customers to build a system around their own needs. There is a trend of Moving down-market. As CRM systems became more affordable, they became accessible to a larger portion of the market. Small and mid-sized companies began to use CRM systems.
solutions to streamline both the storage and sharing of their sales-related information (Kamakura et al., 2006).

Insurance companies who get the best results from CRM are those with an integrated system. Maintaining different systems has many costs and performance issues. They cost more to use and support. They inhibit the flow of information, for example to engineering of possible product problems and to marketing of product enhancements. They also slow the flow of information to sales about customer issues and problems, and may reduce sales opportunities with the customer (Rust et al., 2005). Integrated CRM systems provide the backbone that allows a company to get the most from each customer interaction.

2.18 Benefits of Integrated CRM in Insurance

When CRM is introduced and components are integrated, insurance companies find benefits throughout the organization. In general, these benefits include improved timeliness of processes, increase productivity, improved communication, improved customer satisfaction, reduced customer turnover, increased product sales and improved margins. The sales team is more effective. When they are in contact with the customer or sales prospect, they have all the information needed right at hand. This improves the effectiveness of the sales rep’s communication with the customer and can improve closing ratios and gross margins. Management has better information about key customer processes. These include lead flow, the opportunity pipeline, sales forecasts, issues from key customers, visibility into the customer support process (Smith, 2005). Customer problems are resolved faster, with less time spent per incident. Customer defects are identified and resolved faster. The cost of collecting and distributing customer data is greatly reduced. For all people within the company dealing with customers, time is better used and productivity improves.

The common system creates the basis for a common language and terminology to use for customer issues and needs, which improves communication within the company and makes it more effective. Knowledge Management information is more useful, current with the latest solutions (Reichheld, 2005). Comprehensive reporting and analysis of customer related issues is now possible.
Integrated CRM systems mean that your company will have fewer systems to deploy and support. This will decrease the company’s overall IT systems cost. The results of these improvements are direct and immediate. They consist of improved customer support, increased customer retention, and improved productivity for development and Customer Support agents. These results also include improved customer satisfaction and retention, and improved productivity of everyone who works with the customer (Bass & Alison, 2003). Further benefits flow from a common reporting and analysis tool that provides management with improved visibility of these critical customer processes and issues. One additional set of benefits comes from the use of common systems. This reduces training time, system administration, and improves communication for all involved by implementing common terminology and language across these functions. The costs of not integrating these systems are great. Perhaps one of the largest costs is the reduced productivity of the company’s most expensive resource, its employees. Another cost may be lost opportunities, the result of unhappy customers (Bligh et al., 2004).

Insurance companies have excellent reasons to adopt comprehensive CRM strategy. The financial needs of customers change throughout their lifetime, providing incentives for insurance institutions to cultivate lifelong customer relationships. A customer’s loyalty increases as the length and quality of the relationship increases. Research by Swiss Re consulting shows that companies can increase profitability by 100 percent if they can just retain 5 percent more of their profitable customers per year. As the insurance industry moves from a transaction-centric to a relationship-centric business approach, effectively leveraging customer relationships becomes even more critical (Trembly, 2004). Today, customers are expecting even more individual attention, responsiveness, and customization. They yet are unwilling to pay a premium for these services. They are willing, however, to build long-term relationships based on trust and mutual respect with firms that provide a differentiated and more personalized service offering. There is no doubt that successful interaction with the customer is the critical business process that will ensure customer acquisition and retention (Kumar et al., 2004). For a CRM system to be effective, it must integrate analysis from all customer touch points, balance customer value, and drive business process refinement across the enterprise. If used effectively and innovatively, this approach will enable an insurance organization to
develop a strategy to deliver to the customer the most appropriate products and services (Bowman et al., 2005).

Insurance companies using its greatest asset, knowledge of the customer, can turn the customer relationship into a key competitive advantage by retaining those customers who represent the highest lifetime value and profitability. The shift of focus to all aspects of customer interaction has brought demand for systems that range from marketing and lead generation, to sales process automation, customer information systems, and customer service management. The full integration of these systems, their associated business processes, and the methods for which information is extracted and used forms the basis for customer relationship management or CRM (Heskett et al., 2005). A CRM system links together the disparate customer data residing in transaction systems into a single, logical customer repository or several repositories that feed into one system. The goal of CRM is to manage all aspects of customer interactions in ways that enable companies to maximize the profitability of every customer relationship.

The first customer-focused applications were single “point solutions” for specific departments, such as Support or Help Desk. Contact management and sales force automation (SFA) are examples of point solutions that capture data on certain customers. In the past, call centers were designed to improve the process of handling inbound calls. In the future, they are evolving to encompass more than just cost reduction and improved efficiency. But to be successful today, a company needs more than the ability to handle customer service calls. It needs a comprehensive CRM strategy, an integrated solution that involves every department in the company. This includes not only call centers but also sales, marketing, and support working as a team and sharing information to provide a single view of the customer to anyone in the company with appropriate security permission. CRM can streamline this process, by enabling agents to access an insurance customer’s information over the web via a browser (Bligh et al., 2004). Employees and customers using CRM systems want assurance that every conversation will be referenced against all previous contacts and channels, whether through phone or fax or a web-based interaction. The key to successful interaction is to understand the overall relationship the organization has with the customer. This can be accomplished with the aid of software that is easy to use and that accurately tracks all aspects of the relationship.
so that the customer receives a consistent experience no matter which interaction method he or she chooses (Kerin et al., 2005).

A customer should be able to initiate contact with the organization through one channel, such as the internet, and then complete the interaction through another, like the call center, with seamless transfer of information between the different underlying technologies. Insurance companies are constantly challenged with effectively managing and resolving claims. This includes not only managing the interactions between the many parties involved in settling the claim but also defining the process behind prioritizing and assigning the claim for completion (Mittal et al., 2005). All too often customers are asked to repeat the same information repeatedly to several different members of the insurance company who are involved in resolving the claim. This extends the life of the open claim and helps to foster the familiar perception of insurance companies that they are eager to collect premium payments from customers but are not as eager to assist customers when it comes to paying out a claim. It is also important to understand the relationships that customers have with their intermediaries, other customers, and potential customers (Lavelle et al., 2004).

A CRM system would help hold information about customers and their contact people in meaningful ways. The challenge for any CRM solution is to help identify the point at which customer value balances shareholder value. Having an integrated view of customer profitability, acquisition costs, management costs, and lifetime value can provide such an answer. The aim is to define an appropriate positioning strategy and to build competitive advantage by targeting appropriate customers with appropriate products at the points in their economic cycles when they would be most receptive.

Operational or traditional CRM, followed by collaborative CRM, grew out of the desire to gain a more complete picture of the customer. Operational CRM focuses on combining service, marketing, and sales automation. An operational CRM system gathers data from customer interactions such as service calls, sales transactions, and website activity. Collaborative CRM joins the multi-channel contact centers and touch points that drive ecommerce in the internet age (Zeitz et al., 2006). The next evolution of CRM, where the demand is growing today, combines operational and collaborative CRM with more versatile analytics software to get a true 360-degree
view of the customer. Business intelligence applications, or "analytics," turn operational data into strategic information that is used by decision makers to analyze, plan, communicate, and measure business performance as it relates to the customer. CRM analytics can easily link data from any Enterprise Management or CRM system to analyze customers' buying habits and navigate buyers through ecommerce transactions. Analytical CRM applications can correlate and report on information like the customer's past, present, and future revenue total (drawn from one database) with customer satisfaction levels (drawn from another database) (Boulding et al., 2005). Insurance companies can evaluate the customer data for patterns that can help create marketing campaigns and build targeted sales pitches. In this way, insurance companies can gain key insight into the information they need to acquire new customers, effectively support existing customers, and build long-lasting, profitable customer relationships.

The choice between operational and analytical CRM as a starting point depends upon the insurer's needs. Insurance companies with multiple financial products and a big customer base, such as integrated insurance solution providers, will leverage their customer base to cross and up-sell different financial products, including insurance. Such providers will benefit from adopting analytical CRM. Market segmentation, campaign management and data mining applications will benefit insurance firms in many ways (Abbott et al., 2001).

<table>
<thead>
<tr>
<th>CRM module</th>
<th>Areas where it can be applied</th>
</tr>
</thead>
<tbody>
<tr>
<td>Collaborative CRM</td>
<td>Applying collaborative interfaces (such as e-mail, conferencing, chat, real-time) to facilitate interaction between customers and organizations, as well as between organizational entities dealing with customer information (customers to sales representatives, sales to marketing, agent to provider)</td>
</tr>
<tr>
<td>Operational CRM</td>
<td>Automating horizontal integrated business processes involving front-office customer touch points-sales, marketing, and customer service-via multiple, interconnected delivery channels and integration between front-office and back-office</td>
</tr>
<tr>
<td>Analytical CRM</td>
<td>Analyzing data created on the operational side of the CRM equation for the purpose of business performance management. Analytical CRM is tied to data warehouse architecture; it is most often evident in analytical applications that leverage data marts.</td>
</tr>
</tbody>
</table>

Source: META Group, 2007
Call centre text mining is another CRM tool, which can be of greater benefit to insurance sector. It can help improve the customer experience by resolving complaints rapidly. Insurers are using these tools to mine text from call centre transcripts to identify issues faced by customers. Text mining tools also help detect and capture other useful pieces of information around a customer's life stage, financial needs and product interests. These can be used to generate leads and trigger cross-selling. However, to be fully effective, customer service representatives must be trained to probe for information that will help in cross selling during the text-mining phase. Text mining tools are leading edge today, but are predicted to take off quickly (Boyle, 2004). Insurers can use event triggers to generate leads that can be acted upon quickly, usually within 24 hours. Event-triggering tools monitor incoming transaction and contact data in near-real-time to recognize changes in a customer's behavior or profile to trigger actions or alerts (Peter, 2001).

Often the ability of an insurer to generate leads by means of event triggering, re-engineered touch points and cross line-of-business referral can outstrip their ability to manage said leads. In such a situation, though the number of leads generated rises, the conversion rate does not. It may even drop. CRM can help provide sales representatives with a mechanism to prioritize and manage leads (Alex Berson,
Pure insurance providers who do not have a large customer base will derive the maximum value from operational improvements, especially in integrating customer information from multiple channels and sales force automation. (Zahay, 2004).

Information about the customer, such as profitability scores from individual customer records, can be displayed to anyone with appropriate access to the customer’s profile. This allows insurance firms to create different service levels based upon a customer’s overall value to the organization. Because a company’s relationship with its customer is valued over a lifetime, insurance organizations can use CRM analytics to migrate unprofitable customers to more profitable products or to less costly channels.

CRM analytics is an essential part of insurance company’s e-Business strategy. Insurance firms gain advantage through embracing analytical support for the business enterprise using systems that can quickly organize and retrieve information stored in their customer knowledge base. Insurance company’s investment in a CRM system that tracks customer interactions with the business and facilitates workflow management will lead to service excellence, paying dividends in higher customer retention levels. The accumulation of data into repositories is the first step (Bowman et al., 2004). The next step is using CRM analytics, to transform that data into knowledge and insight that is essential for turning information into profitable actions.

CRM without compromise is about transforming a business to become truly customer driven. It is about building a synergistic ecosystem with employees, customers, and partners that consistently creates and delivers customer value. An ecosystem where customer demand drives the supply, customer insight inspires innovation, and customers are empowered to control their destiny. Insurance organizations that can build such an ecosystem that is also flexible enough to quickly respond to changing customer needs and business challenges will have a sustainable competitive advantage and enjoy profitable growth.
2.19 CRM Implementation Issues in Public & Private Sector Insurance

Fundamental differences exist between CRM systems derived from private sector architectures, and systems designed specifically for the public sector. Commercial CRM uses a consumer-centric approach, focusing on acquiring and retaining customers through data capture to enhance customer retention and with the goal of a 360-degree view of the consumer (Bauer et al., 2006). Private sector business needs drive commercial CRM product development to guarantee that features meet marketing, sales, and long-term customer loyalty requirements. Commercial CRM uses a private sector, consumer-centric data model. In contrast, public sector CRM requires a location-aware approach. A successful public sector CRM system requires a data model that supports the "Way" and "How" public sector responds to customers (Fox, 2007).

As far as insurance CRM is considered, the use of CRM in the public and private sector is similar in two ways. Both use the same underlying technology and principles, and both use CRM to help improve customer care. The big difference between both sectors can often lie in the way in which each regards the customer. In the private sector, the level of service given to each customer is sometimes seen to be based upon his or her current or perceived future value to the organization. This often means that CRM is used by some organizations to ensure that high value customers get a high level of service, while as many transactions as possible, are automated, when it comes to low value customers. In the private sector, CRM is used to manage a large number of customers, using a small number of processes, to maximize a small number of products and services (Accenture, 2005).

There also exists the reality that technology is needed to improve the customer orientation in the public sector as far as CRM in insurance sector is considered. Changing office hours, the redesign of the waiting areas or the opening of one-stop service centers are just some examples that have had an impact on customer satisfaction/customer orientation (Bogumil 1997). Recent empirical studies suggest that CRM technology only has a moderate to weak impact on the overall success of companies' relationship building efforts (Reinartz, 2003). Electronic Public sector and CRM make a difference and open totally different opportunities for the insurance sector. However, the reported success rate of CRM solutions in the private sector varies between 30 to 70 percent (Verhoef & Langerak, 2002).
organizational challenges inherent in any CRM initiative and the diversity of people involved pose another threat for both the sectors. Many projects fail because of the lack of coordination between strategy and processes. Public Administrations have to understand all processes in detail, which might not be possible due to human resource constraints. Another very important issue for the public sector is costs due to budget constraints especially at the local level. It can take up to 24 months until a full CRM system is implemented, a rather long time in the political sphere, and costs usually run from 60 to 130 Mio. USD (Rigby & Schefter, 2002). Therefore, in the insurance CRM arena, sunk costs are another important factor that has to be considered before a CRM approach is chosen. Switching between systems is not possible. Table 1 illustrates some major differences between CRM in the private and the public sector and the constraints on the use of CRM.

| Table 2.3 Major Differences in CRM Scenario between the Private and Public Sector |
|-----------------------------------------------|-----------------------------------------------|
| Competition                                  | Monopoly                                      |
| Market Orientation                           | Jurisdiction                                  |
| Million Relationships                        | Million/Billion Relationships                 |
| Homogeneous product range/Controllable in    | Heterogeneous products/services/uncontrollable |
| quantity                                      | due to political decision                     |
| Personalization                              | “One size fits all” approach                  |
| Segmentation(Pareto rule 20-80)              | Segmentation possible/no termination of        |
|                                               | unprofitable customers                        |
| Budget/ sunk cost                            | Budget/ sunk cost                             |
| Legacy Systems(IT)                           | Legacy Systems(IT)                            |
| Organization Structure                       | Poor Service image                            |
| Organization Structure                       | Human Resources(lack of knowledge; salaries   |
|                                               | not competing with private sector)            |
| Laws                                         | Laws                                          |
|                                               | Accountability/ Federalism                    |
|                                               | Political Influence(Planning Cycle)          |
| Profit Orientation/ Maximizing shareholder    | Democratic understanding/ Philosophy          |
| value                                         |                                               |


With customers demanding more service and accessibility from administrators, public sector CRM software technologies such as one-stop databases, call centers, multi-channel communication channels, and citizen self-service are the best solution for achieving process and cost objectives (Ryan, 2000). With results which go far beyond improved service delivery and include sustained cost reductions, increased customer knowledge and better employee morale, CRM software implementation and post product environments offer great upside value. Although there are material
differences in public and private sector use of CRM strategy, they share at least one glaring similarity – they both have much to gain from proven CRM software technology (Souder, 2001).

There is the underlying fact in the CRM insurance sector that the CRM systems rely heavily on databases and establishing connections to legacy systems. To be efficient, information systems should be able to talk horizontally and vertically on all levels. How far and where this is optimal is yet to be determined. The chances of creating more, rather than cutting red tape in the public sector are high if we consider a paper by Peled (2000). There include questions on the control of the data access and how to protect it and again on the effect of the role of the customer within the state.

In the public sector, each customer is valued equally. The sector’s goal is to provide each customer with a service tailored to his or her needs. CRM can ensure that dealing with a customer is simple, that the customer’s needs are understood and deliver the correct services to address them (Bleyer, 2003). Most or all relevant public sector information on a customer and their contacts with company will be accessible by one agent, be they serving the customer in person or remotely. Thereby, the agent has a holistic view of the public sectors’ relationship with the customer and is better suited to resolve issues and meet expectations (Laing & Angus 2003).

Customer Relationship Management has been well discussed as a holistic concept for the private sector insurance to start, maintain and optimize relationships to make customers more loyal /profitable, in sum to improve the relationship with the consumers. Many companies in both public and private sector have invested into the customer driven CRM concept but research indicates varying outcomes. Recent publications, mainly driven by the private sector rather than academia, show a rising interest about the application of CRM in the public sector domain. Since CRM is a concept enabled by technology this topics is closely connected to the Digital Public sector research agenda. Long-term changes to the structure and organization of the public administration we know as of today, as well as the customer public sector relationship are imminent and need further attention. This paper, review the latest findings in CRM research from the private and public insurance sector. The goal is to identify a framework for CRM Comparison parameters for public and private sector insurance Firms.