1.1. INTRODUCTION

In India, insurance has a deep-rooted history. It finds mention in the writings of Manu (Manusmrithi), Yagnavalkya (Dharmasastra) and Kautilya (Arthasastra). The writings talk in terms of pooling of resources that could be re-distributed in times of calamities such as fire, floods, epidemics and famine. This was probably a pre-cursor to modern day insurance. Ancient Indian history has preserved the earliest traces of insurance in the form of marine trade loans and carriers’ contracts. Insurance in India has evolved over time heavily drawing from other countries, England in particular.

1818 saw the advent of life insurance business in India with the establishment of the Oriental Life Insurance Company in Calcutta. This Company however failed in 1834. In 1829, the Madras Equitable had begun transacting life insurance business in the Madras Presidency. 1870 saw the enactment of the British Insurance Act and in the last three decades of the nineteenth century, the Bombay Mutual (1871), Oriental (1874) and Empire of India (1897) were started in the Bombay Presidency. This era, however, was dominated by foreign insurance offices which did good business in India, namely Albert
Life Assurance, Royal Insurance, Liverpool and London Globe Insurance and the Indian offices were up for hard competition from the foreign companies.¹

In 1914, the Government of India started publishing returns of Insurance Companies in India. The Indian Life Assurance Companies Act 1912, was the first statutory measure to regulate life insurance. In 1928, the Indian Insurance Companies Act was enacted to enable the Government to collect statistical information about both life and non-life business transacted in India by Indian and foreign insurers including Provident Insurance Societies. In 1938, with a view to protecting the interest of the insuring public, the earlier legislation was consolidated and amended by the Insurance Act 1938, with comprehensive provisions for effective control over the activities of insurers.

The Insurance Amendment Act of 1950 abolished Principal Agencies. However, there were a large number of insurance companies and the level of competition was high. There were also allegations of unfair trade practices. The Government of India, therefore, decided to nationalize insurance business.

NATIONALIZATION OF LIFE INSURANCE

An ordinance was issued on 19th January, 1956 nationalizing the Life Insurance sector and Life Insurance Corporation came into existence in the same year. The LIC absorbed 154 Indian, 16 non-Indian insurers as also 75 Provident Societies- 245 Indian

¹ M.N.Mishra (2007), Insurance-Principles and Practice, S.Chand Publication, New Delhi, pp.11-12.
and foreign insurers in all. The LIC had monopoly till the late 90’s, when the Insurance sector was reopened to the private sector\(^2\).

**NATIONALIZATION OF GENERAL INSURANCE**

The history of general insurance dates back to the Industrial Revolution in the west and the consequent growth of sea-faring trade and commerce in the 17\(^{th}\) century. It came to India as a legacy of British occupation. General Insurance in India has its roots in the establishment of Triton Insurance Company Ltd., in the year 1850 in Calcutta by the British. In 1907, the Indian Mercantile Insurance Ltd was set up. This was the first company to transact all classes of general insurance business. 1957 saw the formation of the General Insurance Council, a wing of the Insurance Association of India. The General Insurance Council framed a code of conduct for ensuring fair conduct and sound business practices.

In 1968, the Insurance Act was amended to regulate investments and set minimum solvency margins. The Tariff Advisory Committee was also set up then. In 1972, with the passing of the General Insurance Business (Nationalization) Act, general insurance business was nationalized with effect from 1\(^{st}\) January, 1973. 107 insurers were amalgamated and grouped into four companies, namely National Insurance Company Ltd., the New India Assurance Company Ltd., the Oriental Insurance Company Ltd and the United India Insurance Company Ltd. The General Insurance Corporation of India

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was incorporated as a company in 1971 and it commenced business on 1st January 1973.

COMMITTEE ON REFORMS IN INSURANCE SECTOR

This millennium has seen insurance come a full circle in a journey extending to nearly 200 years. The process of re-opening of the sector had begun in the early 1990’s and the last decade and more has seen it been opened up substantially. In 1993, the Government set up a committee under the chairmanship of RN Malhotra, former Governor of RBI, to propose recommendations for reforms in the insurance sector. The objective was to complement the reforms initiated in the financial sector. The committee submitted its report in 1994 wherein, among other things, it recommended that the private sector be permitted to enter the insurance industry. They stated that foreign companies are being allowed to enter by floating companies in India, preferably a joint venture with Indian partners.

Following the recommendations of the Malhotra Committee report in 1999, the Insurance Regulatory and Development Authority (IRDA) was constituted as an autonomous body to regulate and develop the insurance industry. The IRDA was incorporated as a statutory body in April, 2000. The key objectives of the IRDA include promotion of competition so as to enhance customer satisfaction through increased

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consumer choice and lower premiums, while ensuring the financial security of the insurance market. 4

**REGULATION OF IRDA**

The IRDA opened up the market in August 2000 with the invitation for application for registrations. Foreign companies were allowed ownership of up to 26%. The Authority has the power to frame regulations under Section 114A of the Insurance Act 1938, and has from 2000 onwards framed various regulations ranging from registration of companies for carrying on insurance business to protection of policyholders’ interests.

In December 2000, the subsidiaries of the General Insurance Corporation of India were restructured as independent companies and at the same time, GIC was converted into a national re-insurer. Parliament passed a bill de-linking the four subsidiaries from GIC in July 2002.

In the year 2009-10, there are 24 general insurance companies including the ECGC and Agriculture Insurance Corporation of India and 23 life insurance companies operating in the country. The insurance sector is a huge one and is growing at a speedy rate of 15-20%. Together with banking services, insurance services add about 7% to the country’s GDP. A well-developed and evolved insurance sector is a boon for economic

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development as it provides long-term funds for infrastructure development at the same time strengthening the risk-taking ability of the country.\textsuperscript{5}

**INSURANCE INDUSTRY - PRE REFORMS ERA**

Social security is one of embedded values of Indian social life which is referred even in the Vedas. Joint family system is the best example of a social institution of mutual help which was part of traditional life. The role of local institutions like village level community boards (*Grama Sabhas*), churches and charitable societies were paramount when uplifting the orphaned families in the event of untoward eventualities.

Indian Life Insurance industry during the pre-opening decades prior to 1999-2000 catered to the insurance needs of a wide section of the population, leaving a sizeable number of insurable populations untouched. When the reforms were influential, the Indian Financial Sector during 90’s, in order to increase the insurance coverage for more number of population, with a better product choice, enabling the customers to take an informed decision, the Government of India opened the Insurance Industry in the year 1999 by enacting IRDA Act 1999, on the recommendations of committee on insurance reforms.\textsuperscript{6}

**INSURANCE INDUSTRY – POST REFORMS ERA**

\textsuperscript{5} [www.irda.gov.in](http://www.irda.gov.in), Dec. 2009.

The life insurance industry started with a modest beginning in the year 1957 with Rs.82 Crores of funds. The business performance of life industry for the period ending 31.12.1957 was Rs.13 Crores of First Year Premium on 9.5 lakh policies. The number of direct agents was 12,387 in the year 1958 who contributed just 7% to the total business. As against this, the life fund of the industry scaled to Rs.1,54,043 Crores in the year 2000 and the industry has underwritten Rs.26,250 Crores of premium for the year ending 31.03.2000 on 1.69 Crore number of policies. As against this back drop, the life insurance industry after first 10 years of its operation has done a business of Rs.1,09,894 Crores of First Year Premium on 5.32 Crores of new policies with 29,78,283 individual agents by 31st March, 2010. The industry also contributed significantly in Group Insurance. As at the end of March 2010, 8.07 Crores of lives were covered under 28,659 schemes collecting Rs. 27,550.48 Crores of premium. By the end of 10 years of opening up of the industry, the private insurers succeeded in garnering a market share of 29.90% of the total premium.7

Insurance penetration which is computed as a percentage of premiums to Gross Domestic Product (GDP) and insurance density which is computed as a percentage of premiums to total population are yet to scale high when compared to Asian Average and Global Average. Insurance penetration which was 1.93% in the year 1999 (before opening up of the insurance sector to private participation) has gradually risen to 5.20%.

7 ibid.
in 2009. Similarly, Insurance density which was 8.5 in the year 1999 has risen to 54.3 in the year 2009 an indication of higher insurance awareness levels.\(^8\)

Life Insurance being the business of large numbers gathers higher volumes of premiums, which in turn helps in economic building activities of the economy. The growth of total funds under management of the industry is quite phenomenal since the opening up of the industry. From Rs.2, 60,552 Crores in the year 2002-03 the total funds under management scaled to Rs.12, 05,155 Crores. The total life insurance premium garnered by Life Insurance industry in the year 1999-00 was Rs.26,250 Crores as against Rs.2, 61,172 Crores garnered in the year 2009-10. The capital deployed by Life Insurance Industry which was Rs. 5 Crores in the year 2000 stood at Rs.28, 943 Crores in 2010. The progress achieved by industry in the first decade of privatization is excellent and it also indicates the extent of confidence of insuring public that it won\(^9\).

Indian market is one of the biggest markets in the world having huge population of more than one billion. Insurance is one of the best sectors presenting ascendant growth in the market. According to India Brand Equity Foundation April 2009, Insurance is a US$ 41-billion industry in India. At world level, India ranked as the 5th largest life insurance market in the rising economies having high growth rate of 32-34 per cent yearly\(^10\). As

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8. IRDA Annual report 2009-10.
competition is mounting among all the insurance players in India, they are upcoming with new inventive insurance products, quality services and service encounters are implementing customer relationship management to catch the attention of more and more customers. While the competition has sent strong signals to the state-owned enterprises, LIC still controls the life insurance market. The insurers in non-life segment are finding it difficult to compete with the new private insurance companies.

Service organizations in India are facing tough competition in the global market because of liberalization and globalization of the Indian economy. Hence, it is helpful for service organizations to know the customer service quality perceptions in order to overcome the competitors and attract and retain the customers. Due to globalization and liberalization of Indian economy, Indian service sector has been opened for Multinational companies. In order to overcome the competition and to retain the world class service standards, Indian companies have been forced to adopt quality management programs.

DEFINITION OF SERVICE QUALITY

_Gronroos (2001)_ offers a comprehensive definition of services as “an activity or series of activities of a more or less intangible nature than normal, but not necessarily, take place in the interaction between the customer and service employee and/or physical
resources or goods and/or system of service provider which are provided as solution to customer’s problems”.

MEASURES OF SERVICE QUALITY

Nerurkar (2000) analyzed the SERVQUAL dimensions in India and concluded that service quality should form the basis for all customer retention strategies. Services are defined as: the activities, which are involved in producing intangible products as education, entertainment, food and lodging, transportation, insurance, trade, government, financial, real estate, medical, consultancy, repair and maintenance like occupation. Quality has become a strategic tool for obtaining efficiency in operations and improved business performance. (Babakus and Boller, 1992; Garvin, 1983; Phillips, Chang and Buzzell, 1983).

This is true for the services sector too. Several authors have discussed the unique importance of quality to service firms and have demonstrated its positive relationship with profits, increased market share, return on investment, customer satisfaction, and future purchase intentions (Rust and Oliver, 1994). One obvious conclusion of these

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studies is that firms with superior quality products perform better than those marketing inferior quality products.

Service quality can be concisely defined as the personal experience of the customer with the service provider. Service quality is playing an increasingly important role in the present environment where there is no further scope for the companies to differentiate themselves other than the quality of the service provided by them. Delivering superior service quality than the competitors is the key for the success of any organization. But, the companies face difficulties in measuring the quality of services offered to the customers. Unlike measuring the quality of goods, the measurement of the quality of services offered by the companies is difficult due to three unique features of services viz. intangibility, heterogeneity and inseparability. Hence, the only way of measuring the quality of services offered by the service provider is the measurement of the customer’s perception of the quality of service from their service providers.

Quality has been defined differently by various authors. Some prominent definitions include ‘conformance to requirements’ (Crosby, 1990)\(^\text{16}\), ‘fitness for use’ or ‘one that satisfies the customer’. According to production philosophy of Japan, quality has been defined as ‘zero defects’ in the firm’s offerings. Though initial efforts in defining and measuring service quality emanated largely from the goods sector, a solid foundation for research work in the area was laid down in the mid-eighties by

Parasuraman, Zeithaml and Berry (1985). They were amongst the earliest researchers to emphatically point out that the concept of quality prevalent in the goods sector is not extendable to the services sector. Being inherently and essentially intangible, heterogeneous, perishable and entailing simultaneity and inseparability of production and consumption, services require a distinct framework for quality explication and measurement.

As against the goods sector where tangible cues exist to enable consumers to evaluate product quality, quality in the service context is explicated in terms of parameters that largely come under the domain of ‘experience’ and ‘credence’ properties and are as such difficult to measure and evaluate (Parasuraman, Zeithaml and Berry, 1985). One major contribution of Parasuraman, Zeithaml and Berry (1988) was to provide a terse definition of service quality. According to these authors, service quality means relating the superiority of the service with the global judgment of a person about it and explicating it as involving evaluations of the outcome (i.e., what the customer actually receives from service) and process of service act (i.e., the manner in which service is delivered).

In line with the propositions put forward by Gronroos (1984) and Parasuraman, Zeithaml and Berry (1985, 1988) posited and operationalized service quality as a

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18 ibid.
difference between consumer expectations of ‘what they want’ and their perceptions of ‘what they get.’ Based on this conceptualization and operationalization, they proposed a service quality measurement scale called ‘SERVQUAL.’

Quality has become a strategic tool in obtaining efficiency in operations and improved performance in business. This is true for both the goods and services sectors. However, the problem with management of service quality in service firms is that quality is not easily identifiable and measurable due to inherent characteristics of services which make them different from goods.

**DIMENSION OF MEASURING SERVICE QUALITY**

**Five Dimension of Service Quality**

<table>
<thead>
<tr>
<th>Tangibility</th>
<th>Physical facilities, equipment, appearance of personnel</th>
</tr>
</thead>
<tbody>
<tr>
<td>Reliability</td>
<td>Ability to perform promised service dependably and precisely</td>
</tr>
<tr>
<td>Responsiveness</td>
<td>Willingness to help customers and provide quick service</td>
</tr>
<tr>
<td>Assurance</td>
<td>Knowledge and courteous nature of employee and their ability to show trust and confidence</td>
</tr>
<tr>
<td>Empathy</td>
<td>Caring individualized attention the company provides to its customers</td>
</tr>
</tbody>
</table>


**SERVPERF SCALE**

Cronin and Taylor (1992) were amongst the researchers who leveled maximum attack on the SERVQUAL scale. They questioned the conceptual basis of the SERVQUAL scale and found it confusing with service satisfaction. They, therefore, opined that expectation (E) component of SERVQUAL be discarded and instead performance (P) component alone be used. They proposed what is referred to as the ‘SERVPERF’ scale. Besides theoretical arguments, Cronin and Taylor (1992) provided empirical evidence across four industries (namely banks, pest control, dry cleaning, and fast food) to corroborate the superiority of their ‘performance-only’ instrument over disconfirmation-based SERVQUAL scale. Being a variant of the SERVQUAL scale and containing perceived performance component alone, ‘performance only’ scale consists of only 22 items. A higher perceived performance implies higher service quality. Methodologically, the SERVPERF scale represents marked improvement over the SERVQUAL scale.

Not only is the scale more efficient in reducing the number of items to be measured by 50 per cent, it has also been empirically found superior to the SERVQUAL scale for being able to explain greater variance in the overall service quality measured through the use of single-item scale. This explains the considerable support that has

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emerged over time in favour of the SERVPERF scale (Babakus and Boller, 1992; Churchill and Surprenant, 1982; Woodruff, Cadotte and Jenkins, 1983). Though still lagging behind the SERVQUAL scale in application, researchers have increasingly started making use of the performance-only measure of service quality (Babakus and Boller, 1992; Boulding et al., 1993; Cronin and Taylor, 1992, 1994). Also when applied in conjunction with the SERVQUAL scale, the SERVPERF measure has outperformed the SERVQUAL scale (Babakus and Boller, 1992; Cronin and Taylor, 1992). Seeing its superiority, even Zeithaml (one of the founders of the SERVQUAL scale) in a recent study observed that their results are not compatible with expectations and the gap formation for service quality. Instead, they found that perceived quality is directly influenced only by perceptions (of performance) (Boulding et al., 1993). This admittance cogently lends a testimony to the superiority of the SERVPERF scale.

Therefore researcher decided to do research on the basis of SERVPERF scale, and measure the service quality dimension in Insurance industry.

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MEANING OF CUSTOMER SATISFACTION

The word “satisfied” itself had a number of different meanings for respondents, which can be split into the broad themes of contentment/happiness, relief, achieving aims, and being happy with the outcome and the fact that they did not encounter any hassle.
DEFINITION OF CUSTOMER SATISFACTION

Kotler (1996) defined customer satisfaction as “the level of a person’s felt state resulting from comparing a product’s perceived performance or outcome in violation to his/her own expectations.”

So the customer satisfaction could be considered a comparative behavior between inputs before hand and post obtainments of customers in Life insurance sectors.

CUSTOMER SATISFACTION MEASUREMENT METHODS

The methods of measurement of consumer satisfaction should cover the basic areas namely, identification of customer needs, customer value fixing on factors, suppliers and competitors, bench-mark, variations on deviations between the customers’ expectations and suppliers achievement and the variation between suppliers achievement and the bench mark. There are a number of direct and indirect methods to measure customer satisfaction having their own sets of merits and demerits.

- Direct Methods
- Indirect Methods

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CUSTOMER RELATIONSHIP MANAGEMENT (CRM) IN INSURANCE SECTOR

CRM covers a wide range of products and interfaces (Front office customer touch points to Back office integration and everything in between) - marketing automation, sales force automation, call-center for customer service, data warehousing and data mining which focus on decision making. CRM is a strategy by which companies optimize profitability through enhanced customer satisfaction. It involves process, technology and people issues. All the three together really capture what CRM is; CRM enables people within the organization to interact with the customers, rather than enabling customers to interact with the organization. In e-CRM, handling transaction becomes a seamless part of the relationship life cycle say from e-marketing to e-sales to e-commerce to e-services. It is an enterprise wide effort - a fusion of CRM and ecommerce.

The level of customer service and satisfaction is determined by the location of the branch and design, variety of services, rates and charges, systems and procedures, delegation and decentralization, mechanization and computerization, competitive efficiency, complaint redressal, and very importantly staff skills, attitudes, and responses. A good customer service in insurance companies should have three basic tenets - courtesy, accuracy and speed. The quality of products and services is the dynamic factor for customer satisfaction in insurance companies.
Customer care and service quality have been enjoying much attention from the government, the IRDA, and the insurance companies themselves. Various committees have gone into the problem in great detail and made recommendations, many of which have been implemented. Despite so many measures initiated at various levels to improve the standard of customer service, the level of satisfaction perceived by various segments of customers has been low. In this context, those service quality and customer satisfactions have to be analyzed and appropriate strategies drawn up, not only to attract new customers, but also to retain the existing ones. This study focuses on comparing the various dimensions of service quality, service encounters (relationship between insurance companies employees and customers) and facilities and amenity provided, customer satisfaction with the quality of customer service among the public and the private sector Life insurance companies in Chennai city.

1.2. CONCEPTUAL FRAME WORK

Meaning of Life Insurance

Life insurance is a contract for payment of a sum of money to the person assured (or failing him/her to the person entitled to receive the same) on the happening of the event insured against. Usually the contract provides for the payment of an amount on the date of maturity or at specified dates at periodic intervals or on unfortunate death. If it occurs earlier, among other things, the contract also provides for the payment or premium periodically to the corporation by the assured. Life insurance is universally acknowledged to be an institution, which eliminates “risks”, substituting certainly for uncertainty and
comes at the death or total permanent disability of the breadwinner. By and large, life insurance is civilization’s partial solution to financial uncertainties caused by untimely death.\textsuperscript{29}

**DEFINITION OF INSURANCE**

The term ‘insurance’ has been defined by different experts on the subject. The views expressed by them through various definitions can be classified into the following three categories for the convenience of the study:

I. General Definition

II. Functional Definition

III. Contractual Definition

**I. GENERAL DEFINITION**

The general definitions are given by the social scientists and they consider insurance as a device to protection against risks, or a provision against inevitable contingencies or a cooperative device of spreading risks.

In the words of John Magee, "Insurance is a plan by which large number of people associate themselves and transfer to the shoulders of all, risks that attach to individuals."\textsuperscript{30}


II. FUNDAMENTAL DEFINITION

These definitions are based on economic or business oriented since it is a device providing financial compensation against risk or misfortune.

In the words of D.S. Hansell, "Insurance may be defined as a social device providing financial compensation for the effects of misfortune, the payments being made from the accumulated contributions of all parties participating in the scheme."\(^{31}\)

III. CONTRACTUAL DEFINITION

These definitions consider insurance as a contract to indemnity the losses on happening of certain contingency in future. It is a contractual relationship to secure against risks. Some of the definitions are:

In the words of Justice Tindall, "Insurance is a contract in which a sum of money is paid to the assured as consideration of insurer's incurring the risk of paying a large sum upon a given contingency."\(^{32}\)

DEFINITION OF RISK

According to M. Ahmad, "Capability to estimate risk factor in a way to overcome any kind of uncertain burden and manage the organization for the sake of future survival"\(^{33}\)

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According to the above definition, it is evident that the risk involves nature of uncertain losses. As it can be viewed in a physiological phenomenon, that is meaningful in term of human experiences and reactions. It can also be viewed as an objective phenomenon that may or may not be recognized as we are uncertain about many types of losses that may or may not occur for causes yet to be recognized.

**IMPORTANT TERMS USED IN INSURANCE**

Different terms are used in theory and practice of insurance. Some of the important meanings are given below:

1. **INSURED**

   The party or the individual who seeks protection against a specified risk and entitled to receive payment from the insurer in the event of happening of stated event is known as insured. An insured is normally an insurance policy holder.

2. **INSURER**

   The party who promises to pay indemnity to the insured on the happening of any contingency is known as insurer. The insurer is an insurance company.

3. **BENEFICIARIES**

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34 ibid.
The person or the party to whom the policy proceeds will be paid in the event of the death or happening of any contingency is called the beneficiary.

4. POLICY

The term 'policy' is derived from the Italian word 'polizza', which means 'receipt'. The document which contains the terms and conditions of the insurance contract and issued by the insurer is known as insurance policy.

5. PREMIUM

The amount which is paid to the insurer by the insured in consideration to insurance contract is known as premium. It may be paid on monthly, quarterly, half-yearly, yearly or as agreed upon. It is the price for an insurance policy.
6. **INSURED SUM**

The sum for which the risk is insured is called the insured sum, or the policy money or the face value of the policy. This is the maximum liability of the insurer towards the insured.

7. **PERIL**

A peril is an event that causes a personal or property loss, by fire, windstorm, explosion, collision, premature death, sickness, floods, dishonesty, etc.

8. **HAZARD**

Hazard is a condition that may create, increase or decrease, the chances of loss from a given peril.

9. **EXPOSURE**

An exposure is a measure of physical extent of the risk. An individual who owns a business house may be subjected to economic loss and individual loss because of his business and personal exposures.

Since the later part of the 19th century, marketing has gradually evolved through various marketing orientations. After the industrial revolution in India, the marketing system became increasingly complex. There came revolutionary changes in the techniques, methods and volume of production. Production on mass scale became the rule.
of the day. Large scale production led to large scale consumption, which consequently led to newer methods of marketing. The concept of service apart from marketing the goods also evolved as an advancement of this concept which led to development of service marketing. The scope of the subject also became wider and got new dimensions.

After the LPG, the marketers realized the importance of services. They fell that apart from selling goods, they have to render after sales service and other services to the customer in order to satisfy them. Meanwhile, the service-oriented industries like banking, insurance, transportation, telecommunication services and other services play an important role in building the national economy and development of GDP in the country. As the country develops further and the per capita income increases, people also start spending more on services like health care, banking, insurance, legal, communication and entertainment. This improves the market for services in the country. Increasing competition has made it necessary for service firms to grow from purely selling services to building lasting relationships with their customers.

The severe competition in all sectors of the service industry, be it insurance, healthcare, banking and financial services, investment and brokerage services, food and hospitality, education, entertainment or transport services, has made it necessary for service providers to find ways to differentiate themselves from their competitors and offer customers the best value for their money. Service firms have thus realized the importance of incorporating the goal of total customer satisfaction into their corporate philosophy.
While service firms in the earlier days gave very little importance to segmentation, customer satisfaction, new product development, service quality and other such service aspects, today’s firms stress on the aspects to enhance customer satisfaction and develop business. Further, they did not pay due attention to service quality. However, today they emphasize on service quality by assuring the customer of their commitment to address instances of perfection. The assurance of the best quality service by firms is in the form of guarantees or refund of money or compensation in the event the customer is dissatisfied. Service firms ensure that their commitment to total customer satisfaction is conveyed to them. By doing so, service firms hope to attract new customers while retaining existing ones.
FACTORS INFLUENCING THE GROWTH OF THE SERVICE SECTOR

The factors that influence the growth of the service sector are

**Demographic changes**

The demographic changes taking place in a country have a significant influence on the growth of the service sector in the country. There are three phases of demographic growth, which have relevance to the growth of services. In the first phase, the rate of mortality and fertility decreases. In the second phase, the proportion of young people in the population increases. In the third phase, the number of aged people in the country increases. India has just entered the second phase of demographic growth.

**Social changes**

The standard of living of people around the world has improved significantly. This also holds good for several developing countries. In India, more and more women are entering the workforce, thus increasing number of double income households among the middle class. As a result, the disposable income of middle class families has increased phenomenally, creating a host of opportunities for service industries.

**Economic changes**

Globalization is one of the major factors that have contributed to the growth of service sector. Since several developing countries have removed cross-border trade barriers, there has been a large inflow of capital from developed countries to developing countries. More and more Multi-National Corporations (MNC) have started opening their business in India. The series of steps initiated by the IRDA have resulted in increase in confidence among the customers to invest in insurance companies.

**Technological changes**

The revolution of information technology has also facilitated the growth of the service sector. In the past, the responsibility of a company ended once it shipped the product to the customer. But now firms have realized that they can differentiate themselves from their competitors by offering after sales support services.

**Political and Legal changes**

Political and legal changes have had a great impact on the service sector. In the Indian context however, there have been no major political or legal changes that have had an impact on the country’s economy. The reforms introduced in the early 1990s have been more of policy changes than political or legal changes.

**Policy changes**
Policy changes brought about by the government of a country can have a major impact on almost every sector of the economy, including the service sector. Policy reforms in India paved the way for strong growth of the service sector in the country.

So the concept of service quality and customer satisfaction is a step by step development as shown in the following flow chart.

Chart No.1.1

CONCEPT OF SERVICE QUALITY AND CUSTOMER SATISFACTION DEVELOPMENT

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In the chart No.1.1 the step by step development of service quality and customer satisfaction are highlighted. In earlier days production attained importance that led to development of marketing, and many strategies are devised in marketing. As a result, this leads to new evolution called service marketing. Due to the development of service sector, more competition exists between the service players. The concept of service quality developed automatically which led to customer satisfaction and finally to customer retention.

1.3 NEED FOR THE STUDY

Prior to the liberalization policy in India, there was no private and foreign Insurance company available in the market. Liberalization opened the insurance sector to private and foreign players through joint venture operation in India. This has provided customers of Insurance Industry with a wide range of choice. To maintain the customer base, Insurance companies have now to focus on the service quality so that customers remain satisfied. With the phenomenal increase in the country’s population and the increased demand for insurance services, service quality and customer satisfaction are going to be key differentiators for each insurance company’s future success. Good business growth is achievable only with good customer service and with a good image of insurance companies. Various committees have gone into the problem in great detail and made recommendations, many of which have been implemented. Despite so many measures initiated at various levels to improve the standard of customer service, the level of satisfaction perceived by various segments of customers has been low and they feel the
need to improve the customer-oriented service. The measurement of customer service is a pre-requisite for improving customer satisfaction. Hence, a descriptive study has been conducted by the researcher to find Life insurance service quality and customer satisfaction - A comparative study of LIC and private sector insurance companies in Chennai City.

1.4. STATEMENT OF THE PROBLEM

The insurance industry forms an integral part of the Indian financial market, with insurance companies being significant institutional investors. In recent decades, the insurance sector, like other financial services, has grown in economic importance. This growth can be attributed to a number of factors including rising income and demand for insurance, rising insurance sector employment, and increasing financial intermediary services for policy holders.

A sound national insurance market is an essential characteristic of economic growth. This is not surprising as the insurance industry forms a major component of an economy by virtue of the amount of premiums it collects, the scale of its investment and, more fundamentally, the essential social and economic role it plays by covering personal and business risks. By encouraging these factors that promote insurance demand and aid financial development, policymakers possess a strong tool to stimulate economic growth. A number of foreign insurance companies have set up representative offices in India and have also tied up with various Life Insurance companies. The business environment is constantly changing and demand for adaptability among the organizations tends to
increase. Demands from customers, technological development, change of value and globalization are the factors that drive the need to change and develop an organization. It is hard to get advantages by quickly adapting technology to product or service in an efficient manner. The ability to handle organizations intangible assets such as service is of great importance to reach success, than the ability to invest and manage tangible assets. The study objective is to find out Life insurance service quality and customer satisfaction. To solve this problem, it is imperative for the insurance companies to keep a track of their performance through continuous feedback mechanism to understand customers’ changing expectations to develop strategies for the future.

1.5. **OBJECTIVES OF THE STUDY**

The study has been carried out to find the following objectives:

1. To study the pre liberalization and post liberalization period of Insurance industry in India.

2. To analyze the overall business performance of Life Insurance industry in India from 2000-01 to 2009-10.

3. To assess the influence of macro-economic factors on investments in Life insurance industry in India from 2000-01 to 2009-10. (GDP, Insurance penetration, Insurance density, Household financial savings, Interest rate and Inflation)
4. To examine the motive of taking insurance products by customers in both public and private sector insurance companies in Chennai city.

5. To find out the factors which influence the customers to take insurance product from the insurance companies in Chennai city.

6. To study the service quality and customer satisfaction against five service quality dimensions of Tangibles, Reliability, Responsiveness, Assurance and Empathy in public and private sector insurance companies.

7. To evaluate the quality of service encounters in public and private sector insurance companies.

8. To examine and assess the difference between expected quality and actual quality of facilities and amenities provided by the public and private sector insurance companies.

9. To find out the overall assessment of customer satisfaction with quality of customer service provided by public and private sector insurance companies.

10. To suggest measures for improvement of quality of service of life insurance companies and their performance.

1.6. STATEMENT OF HYPOTHESES
1. There is no significant difference between public and private sector insurance companies with respect to dimension of service quality.

2. There is no significant difference between public and private sector insurance companies with respect to service encounters.

3. There is no significant difference between public and private sector insurance companies with respect to overall importance of facilities and amenities.

4. There is no significant difference between public and private sector insurance companies with respect to overall actual quality of facilities provided by insurance companies.

5. There is no significant difference between public and private sector insurance companies with respect to overall assessment of customer satisfaction.

6. There is no significant relationship between insurance sector and level of service quality.

7. There is no significant relationship between level of service encounters and Insurance sector.

8. There is no significant relationship between level of assessment of customer satisfaction and insurance sector.
1.7. SCOPE OF THE STUDY

The Indian life insurance sector has witnessed exponential growth over the last decade. While India’s favorable demographics have helped enhance market penetration, growth has been driven by innovations in product offerings and distribution by insurance companies since the opening up of the sector in 2000. Amongst other factors, rapid expansion in the life sector coincided with a period of rising household savings, a growing middle class and a rising working population, all backed by strong economic growth. More importantly, there has been a paradigm shift and increasingly customers have been viewing life insurance solutions as a tool for protection and not so much as a tax saving mechanism. Additionally, increased levels of financial literacy have contributed to the growth of the Indian life insurance sector. The scope of the study is very wide by all means.
1.8. METHODOLOGY FOR RESEARCH

1.8.1. Nature of the study

Service sector is expanding at an increasing rate and is becoming intensely competitive. As such, service quality and customer satisfaction have become very important issues in marketing and have received much attention since the deregulation, and thus increased competition of many service industries like insurance industries. Service quality and customer satisfaction have become so important that some business, not only needs high levels of service quality for success, but also needs it for survival. The Indian insurance sector is an essential component of the service industry. The share of Insurance sector within the service industry is very significant, and services in Indian insurance companies are mostly branch-oriented in the public sector Insurance companies, while the private and foreign Insurance companies operated through joint venture operation in Indian market. Once upon a time in India, Life’s insurance had monopoly. Now, the concept has changed. Private and foreign players operated through joint venture to sell Insurance products in India. Therefore, an attempt has been made to carry out a descriptive study regarding Life Insurance service quality and customer satisfaction - A comparative study of LIC and private sector Insurance companies in Chennai City.
1.8.2. Data Sources

The data are obtained from both primary and secondary sources. In first explorative stage of the study, the secondary data were collected in the form of a review of literature to familiarize the researcher with the various aspects of the study from different sources like journals, magazines, books, internet and newspapers. The primary data needed for the study were collected by using structured questionnaire.

1.8.3. Research Approach

The relevant data were collected by the researcher from the customers of public and private sector insurance companies in Chennai. For the purpose of research, area of the study has been classified as three places namely North, South and Central Chennai. And four insurance service providing companies - LIC in Public Sector and ICICI Prudential Life Insurance Company Limited, SBI BNP Paribas Life Insurance Company Limited and Bajaj Allianz Life Insurance Company Limited - were selected for this study on the basis of market share in Indian life insurance market in India.

The researcher approached the customers of public and private sector insurance companies who came out of the insurance companies after completing their transactions, and requested them to fill the structured questionnaire to generate the response to the listed objectives.
1.8.4. Sampling Unit

The sample unit consists of customers of public and private sector insurance companies of North, South and Central Chennai. The respondents are in the age group of 21-60 years including both males and females.

1.8.5. Size of Sample

Considering the time and cost, it has been decided by the researcher to contact 400 respondents. The total sample size is 400 out of which 100 samples are from public sector insurance company, 300 samples are from private sector insurance companies of ICICI Prudential Life Insurance Company Limited, SBI Life Insurance Company Limited and Bajaj Allianz Life Insurance Company Limited.

Table No. 1.1

<table>
<thead>
<tr>
<th>Place of Location</th>
<th>Insurance Sector</th>
<th>Row Total</th>
</tr>
</thead>
<tbody>
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<td>Public</td>
<td>Private</td>
</tr>
<tr>
<td>North Chennai</td>
<td>35</td>
<td>105</td>
</tr>
<tr>
<td>South Chennai</td>
<td>31</td>
<td>93</td>
</tr>
<tr>
<td>Central Chennai</td>
<td>34</td>
<td>102</td>
</tr>
<tr>
<td><strong>Column Total</strong></td>
<td><strong>100</strong></td>
<td><strong>300</strong></td>
</tr>
</tbody>
</table>

(Source: Field Survey)
1.8.6. Sampling Method

The sampling method adopted in this study is convenience sampling method.

1.8.7. Period of the Study

The researcher, with a view to analyze the Life insurance industry performance towards the premium collections, market share, Life Insurance density, Life insurance penetration, Interest rate and inflation, collected the data from 2000-01 to 2009-10 to fulfill the objectives.

1.8.8. Research Instrument

A structured questionnaire was used as the research instrument for the study. The questionnaire was designed in such a way consisting of 16 different questions. The first part of the questionnaire is demographic profile of the customer, like the name of the insurance company, place of location, name of the respondent, sex, age, marital status, education, occupation, monthly income, number of dependents and total amount of Life insurance of the respondent.

The second part of the questionnaire elicited information from respondents regarding how the respondents have become customers of the insurance company, and the third question was about how the respondents got the insurance products, the fourth question was regarding the type of insurance products the respondents have, the fifth question was regarding the purpose of taking insurance products, the sixth question was
regarding the source of information about the insurance company, the seventh question relates to the number of policy the respondents have, the purpose of the eighth question is to determine how long are the insurance company, the purpose of the ninth question purpose is to identify the number of visits to the insurance companies, the tenth question is regarding the purpose of visit to insurance companies, the eleventh question is regarding the ranking of priority for choosing insurance companies (with 1 being the most influential priority for choosing companies up to 8), the twelfth question is to find out the dimension of Life Insurance Service quality through SERVEQUAL tool (is modified as SERVEPERF). Five dimensions like Tangibles, Reliability, Responsiveness, Assurance and Empathy are used to measure service performance of public and private sector insurance companies.

In Tangible dimension, four statements are used and in Reliability, five statements are used, in Responsiveness, five statements are used, in Assurance, five statements are used and in Empathy, six statement are used totally 25 items are used to assess the service quality and 5 point Likert’s scale like Highly Satisfied (HS), Satisfied (S), Neutral (N), Dissatisfied (D), Highly Dissatisfied (HD) is adopted for measuring degree of satisfaction against each statement.

The thirteenth question is regarding core services and other services or products offered or not offered by the public and private sector insurance companies. The fourteenth question is regarding the relationship between insurance companies’ employees and customers (SERVICE ENCOUNTERS). 15 item statements are used to find
the service encounters and 5 points Likert’s scale is used like Strongly Agree (SA), Agree (A), Neutral (N), Disagree (D), Strongly Disagree (SD) to measure the service encounters.

The fifteenth questions is concerned with facilities and amenities given to the respondents with a rate score (1-5), the expected quality on left hand side and actual quality on right hand side. The sixteenth question is regarding the assessment of customer satisfaction with 5 point likert’s scale.

1.8.9. Pilot Study

A pilot study was conducted from 60 respondents of both public and private sector insurance companies in Chennai city. 15 respondents are from Life Insurance Corporation of India, and the rest of the 45 respondents are from private sector insurance companies of ICICI Prudential Life Insurance Company Limited, SBI Life Insurance Company Limited and Bajaj Allianz Life Insurance Company Limited each with 15 respondents each. The pilot study is conducted to check the reliability and feasibility of the questions as well as the statements included in the questionnaire. The Cronbach’s Alpha method is adopted to check the normality as well as the reliability of the statements in Likert’s Five Point Scale. The result showed that the statements included in the questionnaire possess a high reliability of 98.6%, with Cronbach’s Alpha Co-efficient .876. It led to the conclusion that the statements posed to the customers are highly reliable and understandable to express their free and fair opinion for final study.
1.8.10. Field Work

The respondents were contacted directly by the researcher for collecting the relevant data. Proper care was also taken to maintain the heterogeneity of samples. The field work was carried out for a period of six months from 1\textsuperscript{st} October 2010 to 31\textsuperscript{st} March 2011.

1.8.11. Method of Analysis

The data collected for the study are analyzed by using SPSS package. The analysis can broadly be categorized under two parts namely

1. Descriptive analysis
2. Inferential analysis

In descriptive analysis, percentage method is adopted to analyze the demographic profile of the respondents and other data relevant to the objectives of the study.

In Inferential analysis, the relationships between the variables are established in the form of hypothesis, and these hypotheses are tested by using the following statistical tools:

1. t-test
2. Chi-square Test
3. Regression Analysis
4. Correlation coefficient
1.8.12. Highlight of the study

The ultimate objective of this research is to study the life insurance industry in pre-liberalization and post-liberalization in India, to analyze the industry performance of this industry from 2000-01 to 2009-10, to assess the influence of macro-economic factors on investments in Life insurance industry in India and service quality and customer satisfaction and to compare both public and private sector insurance companies.

This research suitably modified the ‘SERVQUAL’ scales to suit the requirements of the Life Insurance service quality. The dimensions are Tangibles (four attributes), Reliability (five attributes), Responsiveness (five attributes), Assurance (five attributes) and Empathy (six attributes) with a total of 25 in number.

Though the dimensions have been refined with attributes of twenty five altogether, the research has only utilized ‘SERVPERF’ scale to measure the perceived / received service instead of expectation and perception evaluation in the case of ‘SERVQUAL’ scale. Consequently, a five point scale (Highly satisfied, Satisfied, Neutral, Dissatisfied, Highly Dissatisfied) to measure satisfaction has been used which reflects the actual service received (in terms of satisfaction) by the respondents. Hence to be specific, this study makes an attempt to measure Life Insurance service quality and customer satisfaction, which is on the basis of actual service experienced against the five service quality dimensions. In other words, customer satisfaction is measured in this study by direct application of five-point scale, namely, Highly Satisfied to Highly Dissatisfied.
1.9. LIMITATIONS OF THE STUDY

The study was limited only to the city of Chennai. Due to the limitations in the time factor, the study was limited only to the major four life insurance companies LIC from public sector and ICICI Prudential life insurance Company limited, SBI Life insurance company Limited and Bajaj Allianz Life insurance company limited from private sector. The duration of the study also restricted from 2000-01 to 2009-10.

1.10. SCHEME OF CHAPTERIZATION

The study is structured under five chapters from a basic introduction to findings and conclusion.
Chapter – I Introduction and Methodology

This chapter introduces the study and states the conceptual framework, need for the study, objectives of the study, statement of hypotheses, research methodology, and limitations of the study.

Chapter – II Review of Literature

The second chapter deals with the reviews of earlier research studies.

Chapter – III Insurance sector in India-An overview

This chapter highlights the corporate governance guidelines for insurance companies, Initiatives towards policy holder’s protection, grievance redressal, settlement of claims, and Impact of Liberalization on Life Insurance Industry.

Chapter – IV Data Analysis and Interpretation

This chapter deals with the analysis and interpretation of data collected for the study.

1. Descriptive Analysis

2. Inferential Analysis

Chapter V Summary of findings and Conclusion

In this chapter, the findings of the research study are presented one by one. This chapter concludes by setting out the study’s contribution to knowledge. And directions for future research are stated by the researcher for the benefit of future researchers.