Indian economy is in transition over the last ten years owing to the major economic reforms affecting almost all sectors. Insurance business is the most significant in the financial services sector. Life insurance Corporation (LIC) of India is a financial intermediary which mobilizes people’s savings and invests large amounts of premiums. Life insurance meets the contingencies of physical death and economic loss.

In India the insurance business is going on for more than 150 years. Life Insurance was brought in for the first time by the British. The business of life insurance in India in its existing form started in the year 1818 with the establishment of the Oriental Life Insurance Company in Calcutta. The Indian Life Assurance Companies were the first to regulate the Life Insurance business in 1912. The Insurance Act of 1938 was passed and the Department of Insurance under the authority of Superintendent of Insurance was established for the administration of the Act. The study of insurance companies between 1939-55 reveal the lack of trust which is the corner stone of life business and thus nationalization of insurance business became necessary.

In 1956 LIC was formed by an Act of Parliament, viz. LIC Act, 1956. The Life Insurance Business in India was characterized by the presence of only one player i.e., the Life Insurance Corporation of India. The Life Insurance Corporation of India is the largest life insurance company in India and it is fully owned by the Government of India.
Policy Holders Expectations and Perceptions

Customer expectations are beliefs about service delivery that function as standards or reference points against which performance is judged. Because customers compare their perceptions of performance with these reference points when evaluating service quality, thorough knowledge about customer expectations is crucial to services marketers. Knowing what the customer expects is the first and possibly most crucial step in delivering quality service.

The level of expectation can vary widely depending on the reference point the customer holds. Everyone has an intuitive sense of what expectations are. Customers hold different types of expectations about service. Two types of expectation can be focused on.

The highest can be termed as desired service: the level of service the customer hopes to receive and the wished for level of performance. Desired service is a blend of what the customer believes “can be” and “should be”

The lower level of customer expectation is the level of acceptable service or adequate service: the level of service the customer will accept.

These two types of expectation standards, act as the upper and lower boundaries for customer expectations. Customers typically hold similar desired expectations across categories of service, but these categories are not as broad as whole industries. The adequate service expectation level, on the other hand, may vary for different firms within a category or subcategory.¹

Six major areas of customers expectations from the life insurance companies are:

1. **Resolution of customer anxiety** In a service industry, one of the factors that motivates a customer to opt for a service provider is whether the service provider is able to reduce his or her anxieties, articulated or not, in relation to

the same. In case of insurance service, many customers are not fully aware of the benefits being offered as well as the terms and conditions underlying the same. There is always an apprehension in the minds of the customers that insurance companies are only interested in collecting the premium without explaining the conditions for seeking future claims. Because of this fear, the general tendency is to avoid taking insurance covers.

2. **Simplification of the documents.** Complex documentation acts as a deterrent to seeking services because most customers are not knowledgeable about the insurance products. When faced with long and complicated paperwork, an immediate reaction of the customers is to assume that the cover is not in their favour.

3. **Enhanced responsiveness.** Though the customers expect superior services all the time, customers do realize that once in a while, there can be specific problems when service providers, such as the insurance companies, are not able to honour the predefined service standards in the normal course. However, if a service provider is responsive to customer needs, and goes out of its way to make up for the failure in services offered, the customers enjoy the special treatment meted out by the service provider during the post-complaint stage and this builds loyalty.

4. **Improve post-sale service.** In a service industry, a significant amount of customer value is created during the post-sale phase. For example, in the insurance industry, the past experience of customers in settling claims influences their future decision on renewals as well as in taking additional policies. Research shows that unhappy customers tend to share a bad experience with potential customers more than they share a good one.
5. **Courtey shown.** The customer’s perception of quality of services is also influenced by the courtesy extended to a customer when he comes face-to-face with the employees of the service provider.

6. **Effective cost of service.** This includes not only direct cost e.g., premium, but also the hidden costs such as cost of follow-up, delay in settlement of claims, long waiting time etc.,

**Perceptions**

Perception can be described as how we see the world around us. Perception is the process by which an individual selects, organizes and interprets information to create a meaningful picture of the world. Individuals act and react on the basis of their perceptions and not on the basis of objective reality.

“Perception is the process by which an individual selects, organizes and interprets stimuli into a meaningful and coherent picture of the world.” Leon G. Schiffman(2000).

Philip Kotler is of the view that people can form different perceptions of the same stimulus because of three perceptual processes – selective exposure, selective distortion and selective retention.

**Customer Preferences**

There are four unique elements to services. Intangibility, Inconsistency, Inseparability and Inventory. These four elements are referred to as the 4 I’s of services. When customers decide to purchase a service to meet an unfilled need, they

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go through what is often a complex purchase process. This process has three identifiable stages: the pre-purchase stage, the service encounter stage, and the post-purchase stage.

The primary objective of service producers and marketers is identical to that of all marketers: to develop and provide offers that satisfy consumer needs and expectations, thereby ensuring their own economic survival. In other words service marketers need to be able to close the customer gap between expectations and perceptions. To achieve this objective, service providers need to understand how consumers choose and evaluate their service offerings. Unfortunately, most of what is known about consumer evaluation processes pertains specifically to goods. The assumption appears to be that of services, if not identical to goods, are at least similar enough in the consumer’s mind thereby chosen and evaluated in the same manner.

The assumption has been challenged and it is clearly shown that the unique characteristics of services require different consumer evaluation processes from those used in assessing goods. Recognizing these differences and thoroughly understanding consumer evaluation processes are critical for the customer focus, on which effective services marketing is based. As the customer is the heart of effective services marketing, the focus should be on the customer.

Consumers have a more difficult time evaluating and choosing services than goods, partly because services are intangible and non standardized and partly because consumption is so closely intertwined with production. These characteristics lead to differences in consumer evaluation processes for goods and services in all the stages of the buying process. Customer behavior is roughly divided into 5 categories or stages of the buying process: (1) Need recognition, (2) information search, (3) evaluation of alternatives, (4) purchase and consumption, and (5) post-purchase
evaluation. Lack of understanding of the way customers assess and choose services in these five fundamental stages leads to a customer gap that must be closed by service marketers.\textsuperscript{4}

**Consumer Evaluation of Services**

For consumer evaluation of services the concept of goods was considered and it is only in the two decades it was realized that service characteristics have definite implications on the consumer evaluation process. For service industries, therefore, service providers must understand how consumers choose and evaluate their offering.

Service performances, especially those that contain few tangible clues, can be difficult for consumers to evaluate, both in advance of purchase and even afterward. As a result, there is greater risk of making a purchase that proves to be disappointing. A customer who buys a physical commodity that proves unsatisfactory can usually return or replace it. These options are not as readily available with services.

**Product Attributes affecting Service Evaluation.**

Product attributes can be divided into search, experience, and credence properties.\textsuperscript{5} All products can be placed on a continuum ranging from “easy to evaluate” to “difficult to evaluate,” depending on whether they are high in search attributes, experience attributes, or credence attributes.

Search attributes are those that a consumer can determine before purchasing a product, experience attributes are that, which can be discerned only after purchase or

\textsuperscript{4} Valarie A. Zeithaml, Mary Jo Bitner, Services Marketing, Tata McGraw-Hill Publishing Co., Ltd., 2003, pp 37

during consumption and credence attributes includes characteristics that the consumer may find impossible to evaluate even after purchase and consumption.

Goods high in search attributes are the easiest to evaluate. Goods and services high in experience attributes are more difficult to evaluate because they must be purchased and consumed before assessment is possible. Goods and services high in credence attributes are most difficult to evaluate because the consumer may be unaware of or may lack sufficient knowledge to appraise whether the offerings satisfy given wants or needs even after consumption.

These four important characteristics of services make it difficult for customers to evaluate. Difficulty in evaluation, in turn, forces consumers to rely on different cues and processes when evaluating services. Experience and credence qualities dominate in services and consumers employ different evaluation processes than those they use with goods, where search qualities dominate. Specific areas, where characteristics of services may lead to divergent evaluation processes and altered consumer behavior are information search, evaluative criteria, size and composition of the evoked set of values, and attribution of dissatisfaction.

**Need for the Study**

In the current scenario with the liberalization of the life insurance industry the customer will be the single most important factor driving changes in the life insurance business. Fuelled by competition, increased awareness will bring the customers on to center stage. For insurers, therefore, the critical success factor would be managing the customer. In the Indian context, with the onset of financial deregulation, monoliths of the insurance industry are changing. It is witnessing a redefining of its role by exhibiting a paradigm shift from brick-mortar strategy to click-and-mortar strategy.
Thus increase in number of insurance companies has led to a wider choice for Indian consumers.

The rising customer awareness and aspiration of quality service and availability of alternative service providers in the Indian market has made customers more demanding. Thus, an insurance company’s ability to attract and retain the customers is a function of not only what it offers but also how it serves its existing customers.

A large number of studies have been carried out in US and other Western countries to identify the important factors that guide the consumers while selecting life insurance products. Insurance products are a dime a dozen. Choosing an insurer over another is not easy with little track record of performance to compare. Moreover, while choosing an insurance product, it is important for an individual to identify the core need. While most seek a combination of financial protection as well as investment needs to achieve long-term goals like child’s education, buying a house etc., there are customers who require only financial protection. Such individuals have already taken care of their investment needs and have identified a need to protect his/her family financially from undesirable eventualities like mortgage liability or degradation of lifestyle, in the unfortunate event of his death. The need for buying an insurance not only differs among individuals, but also varies with the person’s age. The insurance needs of an unmarried working executive when he is in his early days of employment is different from his needs when he is middle aged and married with children. It is thus important that the individual evaluates his insurance need, considering his age, following which he can arrive at a suitable protection and investment mix and tenure.
Life insurance companies have to understand the requirements of the customers. For this purpose lots of surveys and studies have to be conducted periodically to explore and identify their expectations in the existing environment.

**Statement of the Problem**

The Life Insurance Industry has become increasingly competitive in recent years. Consumer behavior and satisfaction from life insurance products depends upon various attributes like search, experience and credence factors. The pre-purchase and post-purchase services perception and expectations from the services determines the quality and customer satisfaction from services. There are other important factors like emotional factors, loyalty, persistency, switching over costs, complaining behavior and repurchase decisions which are of immense importance in determining the service quality, customer satisfaction, switching over behavior and repurchase intention.

Poor persistency may be due to ‘churning’, where the salesperson persuades the policyholder to withdraw from an existing contract in order to switch insurers. In such cases, persistency problems could not necessarily be attributed to the poor sales quality of the original insurer or due to dissatisfaction. Furthermore policyholders may decide to withdraw and switch between different insurers in order to secure better terms.

The foundation for true loyalty lies in customer satisfaction. Highly satisfied or even delighted customers are more likely to become loyal apostles of a firm, consolidate their buying with one firm and spread positive word of mouth. In contrast, dissatisfaction drives customers away and is a key factor in switching behavior.
The study of expectations and perceptions of consumers towards a professional service like life insurance in the post liberalization period is considered to be one of the most challenging problems in the insurance sector. Expectations and perceptions form the basis for the determination of customer satisfaction. The main problem of the study is to examine the consumer’s opinion and attitude towards the characteristic features exhibited, the reasons for loyalty, persistency and withdrawal from existing life insurance company. The entry of private players has made the entire scenario complicated and satisfying the customers is the major problem faced by insurers in the light of the severe competition. To solve this problem, it is imperative for the insurance companies to keep a track of the customers through continuous feedback mechanism to understand customers’ changing expectations to develop strategies for the future.

Hence, this study is undertaken to examine expectations, perceptions and customer satisfaction, to provide useful information to the industry and the policyholders for their useful and fruitful relationship.

**Objectives of the Study**

1. To observe the current scenario of the Life insurance Industry in India.
2. To identify and compare the attributes relating to customer preference and their influence on the purchase of Life insurance products from LIC and PLIC.
3. To compare LIC and PLIC on the basis of the role of service quality relating to customer satisfaction.
4. To study the impact of customer satisfaction on loyalty, corporate image, complaining behaviour and switching over of the customers.
5. To compare the customers of LIC and PLIC based on their behavioural aspects towards life insurance products.

6. To suggest measures for improvement of quality of service of life insurance companies and customer satisfaction.

Research Methodology

Pilot Study

A preliminary investigation is undertaken by contacting 75 policyholders of selected companies. 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 and Hotelling’s $t^2$ test are performed 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 97.6%, with Cronbach’s Alpha Co-efficient .976. It forces to conclude that the statements posed to the customers are highly reliable and understandable to express their free and fair opinion.

Main Study

This study is based on both primary data as well as secondary data. The primary data is collected from the policyholders of life insurance through a well framed questionnaire consisting of 27 prominent questions. The questions are constructed in optional type as well as in Likert’s Five Point Scale. The optional type is aimed at ascertaining Life Insurance Companies corporate image, information search and other policy details of the customers. It is also used to obtain Demographic details of the customers.
The Likert’s Five Point Scale is applied to seek the opinion of the customers regarding expectations, perceptions, loyalty and persistency. Besides these, the customers opinion on the level of agreement on different characteristic features, repurchase decision and emotional factors affecting purchase of life insurance policies, are also obtained.

Scaling Techniques

The Likert’s Five Point Scale is a unique technique exploited in the study in the various context, based on the measures of opinion. In ascertaining expectations and perceptions, the Five Point Scale is allowed to range over Very Low to Very High with mediocre value representing medium expectation or perception.

On other parts of the questionnaire the Five Point Scale works out to express the opinion of customers from Strong Agreement to Strong Disagreement. The middle value 3 represents neutral opinion of customers of life insurance policies. Explicitly, the two different Likert’s Five Point Scales are expressed below:

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<tr>
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<th>VERY HIGH</th>
<th>STRONGLY AGREE</th>
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<tr>
<td>5</td>
<td>HIGH</td>
<td>AGREE</td>
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<tr>
<td>4</td>
<td>MEDIUM</td>
<td>NEUTRAL</td>
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<tr>
<td>3</td>
<td>LOW</td>
<td>DISAGREE</td>
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<tr>
<td>2</td>
<td>VERY LOW</td>
<td>STRONGLY DISAGREE</td>
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Data Collection

The primary data is collected from the policy holders of the selected companies. The secondary data is collected from reports, journals, newspapers, magazines and websites.

The primary data is collected through the questionnaire with suitable scales as mentioned above from the customers of life insurance policies in Chennai.
The collected data are scrutinized and are subject to various statistical reliability checks and ultimately tabulated for suitable research work. The Statistical Packages for Social Sciences (SPSS) were applied to ascertain the nature of data and to analyze its anatomy.

**Area of Study.**

Chennai is selected for conducting the survey as it is one among the four Metros in India, where people from all walks of life are located. The LIC of India has been the leader for the past 51 years and has been the only Public Sector Undertaking and thus is chosen. From the private sector, five companies viz., Bajaj Allianz Life, ICICI Prudential Life Insurance, HDFC Standard Life, SBI Life and Reliance Insurance are chosen because their volume of the business occupies the first five places.

**Sample Size.**

In order to obtain different perceptions of customers of LIC and PLIC, totally 746 well framed questionnaires are circulated in different parts of Chennai city on a random basis. Out of 746, only 719 are returned. Among 719 questionnaires it is found that 700 as suitable for primary data analysis. Out of 700, it is found that 454 are customers of LIC and 256 are from selected PLICs. The top five private life insurance companies were chosen on the basis of the number of policies and premium collected. Since LIC is in life insurance business for the past 51 years and is considered as a big giant, top 5 PLICs are chosen for comparison. Since the population is unknown, a Simple Random Sampling procedure is adopted to obtain better statistical results to reflect the characteristic features of the population. The
efficient estimated process satisfying Crammer-Rao’s Inequality to justify the sample size representing the unknown population is used.

**Data Analysis.**

This study is both descriptive and empirical in nature. Certain concepts of insurance policies and elaborative expressions of secondary data are described in detail for clear understanding. The primary data collected in the form of responses from the customers are systematically analyzed by identifying the independent as well as dependent variables.

All the responses of the customers obtained through Likert’s Five Point Scale forms the domain of dependent variables and the questions about life insurance policies, information search and demographic background are taken up as independent variables. Based on these two categories of variables, the following statistical tools are systematically applied to obtain the results desired in the objectives of the study.

**Statistical Tools Used**

1. One sample t-test is used to ascertain the nature of opinion of respondents regarding the various consumer behavioural aspects of life insurance policies.

2. Factor analysis is exploited to identify the predominant factors of customer’s expectations, perceptions, characteristic features of the product and repurchase decision.

3. One-way analysis of variance is used to know the influence of independent variables on the various factors of dependent variables.

4. K-Means Cluster Analysis with Agglomeration Schedule is brought to bear on problem of classifying the customers, based on their perceptual quality.
5. Discriminant analysis, Multiple Regression and Logistic Regression are sequentially used to identify a correlation between clusters and factors of consumer behavior regarding life insurance policies.

6. Percentage analysis and Diagrammatic representation are used.

**Scope of the Study**

The study focuses on the consumer behavior relating to the areas of customer preference, customer satisfaction, loyalty, repurchase decision and complaining behavior of customers in the purchase of life insurance products.

In the current scenario the life insurance business has become liberalized and competitive. It is found that exploring the behavior of the customers will give an insight to life insurance companies to maximize their customers.

**Limitations of the Study**

The study suffers from certain limitations

1. The data for the purpose of the study is collected from respondents in Chennai only.

2. The study concentrates only on certain factors relating to customer purchase behavior. There may be other influencing factors too, which have not been considered due to time and data constraints.

3. The primary data for the study is collected through questionnaires and the results of the study may suffer from the inherent drawbacks of such instrument.
4. The study compares the perceptions and expectations of the customers of the life insurance service. Perceptions are subjective in nature and are likely to change with the changing times and market conditions.

5. This study is restricted to the sample size of 700. Out of these 700 respondents, 454 expressed their views on LIC and 256 on for Private Insurance Companies. So, any result obtained out of this sampling technique may not be generalized for other greater or less sample size.

6. This study is restricted to the comparison of services offered by LIC and Private insurance companies and no comparison of range of insurance products is compared.

This study cannot be generalized for the customers of life insurance products in the whole of India. The results obtained in this study or suggestions offered are based on the study conducted on the consumers in a small geographical base viz., the City of Chennai.

**Chapter Arrangement**

**CHAPTER I** presents a brief introduction of life insurance industry. It also bring out need and the importance of the study, research question, objectives of the study and research methodology.

**CHAPTER II** highlights the various studies pertaining to consumer behavior elements like purchase decisions, information search, satisfaction and complaining behavior of customers.

**CHAPTER III** gives a synoptic view of LIC and Private Life Insurance Companies and their product features.
CHAPTER IV analyses the primary data of LIC and PLIC on customer perceptions.

CHAPTER V Classification of customer of LIC and PLIC to identify the perceptions towards Life Insurance Products.
CHAPTER VI presents a comparison between LIC with Private Insurance Companies and also consists of the identification of significance differences between LIC and Private Life Insurance Companies.

CHAPTER VII summarizes the results obtained in the study and shows prominent and key findings along with suggestion and conclusion.