CHAPTER – I
INTRODUCTION AND RESEARCH DESIGN

1.1 INTRODUCTION

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

With the increasing demands of customers, the insurance sector has become competitive. The one-for-all or all-for-one syndrome is being given a go-by. Customers are becoming increasingly aware of their expectations and demand higher standards of services, as technology is enabling them to make comparisons quickly and accurately. Their perceptions and expectations are continually evolving, making it difficult for service providers to measure and manage services effectively.

The trend of insurance companies shifting from a product-focused view to a customer-focused one has been developing recently as insurance products become increasingly hard to differentiate in fiercely competitive markets. Insurance companies in India are consequently directing their strategies towards increasing customer satisfaction and loyalty through improved service quality. It is becoming desirable for insurance companies to develop a customer-centric approach for future survival and growth. The awareness has already dawned that prompt, efficient and speedy service alone will tempt the existing customers to continue and induce new customers to try the services of the company.
In the life insurance sector, most of the companies have equivalent offerings. Service marketers have realized over past few years that competition can be well managed through quality. Thus service quality is imperative to achieve competitive advantage. Poor quality places a firm at a competitive disadvantage. Service quality offers a way of achieving success among competing services, particularly in case of firms that offer nearly identical services, such as life insurance, where establishing service quality may be the only way of differentiating oneself. Such differentiation can yield a higher proportion of consumer’s choices, and hence mean the difference between financial success and failure.

1.2 THEORETICAL BACKGROUND

Service quality has become ever more important to improving customer satisfaction in the public sector organization. Public sector organization specially knows that customer satisfaction is one of the most vital factors that contribute in establishment reputation and credit in the public view. The public complained about long queues, poor service delivery and deficiency of physical facilities direct effect on the level of service quality in the public sector organization.

However one can say that it is not easy to measure service quality because of its unique characteristic namely intangibility, perishability, heterogeneity inseparability. According to the Rust and Oliver (1994) service quality has three components including product, service, delivery and service environment whereas service product refers to the technical quality of service, service delivery refers to the functional quality of service and service environment refers to the internal and external activity of the service. Support had been gained for similar models in banking and health care samples (Mc Alexander, Goldenberg and
Koenig, 1994). According to the related literature, service quality that customers received must be reliable, responsive and emphatic involving service product, service delivery and service environment.

1.2.1 SERVICE QUALITY

Service quality has become as one of the key driving forces of business sustainability and is vital for firms’ accomplishment (Rust and Oliver, 1994). Hence, many research activities on service quality has been conducted out worldwide. The development of the original 22-item SERVQUAL instrument by Parasuraman (1985, 1988, and 1994) [19,20,21] It has provided researchers with the possibility of measuring the performance expectations gaps composed by five determinants knows, reliability, responsiveness, empathy, assurance and tangibility. Rust and Oliver (1994) have given three component model including service quality, service product service delivery to investigate service quality but not many researchers has used it, whereas service product allude the technical quality, service delivery allude functional quality and service environment indicate internal and external.

Rust and Oliver (1994) have not tested their conceptualization but support has been found for related models in retail banking (Mc Dougalll and Levesque 1996) and health care samples. Furthermore, Kotler and Amstrong (1996) stated, “A service firm’s ability to hang onto its customers depends on how consistently it delivers value to them”. Satisfaction is a person’s feeling of the pleasure or disappointment arising from comparing products perceived performance in relation to their expectation. The connection between customer satisfaction and future intentions has been identified.
1.2.2 SERVICE PRODUCT

Service product is a service designed to deliver to the customer. Service product also involves specification and targeting of service. According to Rust and Oliver (1994) designing of service product is different to design the core physical product. The characteristics of service product are intangibility, inseparability, heterogeneity and perishable (Zeithaml and Bitner, 2000), the production management jobs, of the service industry are many different and difficult for managing than manufacturing industry. Besides the bad service product can cause service failures, bad service quality and low customer satisfaction. Therefore, the concept of service management must also include the component of employees' quality consciousness (Deng and Pei, 2009).

1.2.3 SERVICE DELIVERY

Service delivery can be defined by the link to the role of performance, customers are hoping to enjoy expected sequence of proceedings and provide a role expectation with the most service encounter. The management needs to study service delivery to monitor the satisfaction level of customer.

Performance of service delivery directly affects service quality and customer satisfaction (Mohr and Bitner 1995). Many researchers have highlighted the importance of customer contact in creating and providing good service quality (Bitner et al. 1990; Hartline and Ferrell, 1996). Salesperson’s service behaviors are important in building trust and customer Satisfaction (Ahearne et al. 2007). Therefore, when the manager tries to make effort of service quality and customer satisfaction improvement is the significant management topic in present human resource management and service management.
1.2.4 SERVICE ENVIRONMENT

Service environment includes many dimensions which can be classified into internal environment and the external environment. Internal environment primary focus on the organizational culture and the dominant philosophy bring to service provision by management on the other hand external environment particularly focus on the physical activity of service location. According to the Fisk, Brown and Bitnar (2000) accurate workplace condition are significant factors for health and performance and also favorable for each and every way. Apart from it Meanwhile, Rust and Oliver (1994) indicate that improving workplace condition and health standard both are pledged employee performance. To produce physical infrastructure is useful to satisfy internal and external customer also to obtain higher workplace has a direct impact on organizational success the atmosphere smell and music also expressed be the physical environment directly can be effect customer perception and behavior.

1.2.5 CUSTOMER SATISFACTION

One of the important features that are essential for any companies and organizations is customer satisfaction. This is the primary factor of most companies that leads to revenue for companies. Therefore, this concept has become a field of interest for academic and marketers for many years. According to Mittal & Kamakura in 2001, satisfaction is a main indicator for customer retention in the future. They believe that customers don’t change their services or products provider if they are satisfied with their purchase. In addition, this concept is prerequisite for customer loyalty. Some researchers believe that the ultimate goal of customer satisfaction is customer loyalty, which refers to the tendency of a customer to choose one service or product over another for a
particular need (Heskett 1997). This factor can drive a company to more profit
growth and performance (Reichheld 1993). There are very different definitions
of customer satisfaction.

The first definition of this concept is explained by Westbrook in 1981; he
defines customer satisfaction as an emotional state that involves customer
evaluation of a service that he has received from a company and his response to
it. Another definition is explained by Churchill and Suprenant in 1982 that
defines this concept as a cognitive process of comparison between what they
spend to earn a service and what customers receive. It has also been viewed as a
function after purchase. They assume this function as an outcome and
comparison between cost and feedback of the purchase with their prediction
about services. However, cognitive and evaluation theories are based on two new
definitions about customer satisfaction: they are called overall satisfaction (or
cumulative satisfaction) and transaction specific judgments.

Overall satisfaction is an overall assessment about services and products
based on total cost and consumption experience over time (Parasuraman, Fornell,
and Lehmann 1994). This theory is different with transaction of specific customer
judgment that refers to an affective reaction to the most recent transaction
experience with the firm (Oliver, 1993; Cronin and Taylor, 1994). Marketers
believe that customers usually desire to have high expectations of the products
and service which are purchased and consumed. Oliver (1981), highlights that
customer satisfaction originates from an overall psychological state.

According to this, the emotion surrounding disconfirmed expectations is
coupled with the consumer’s prior feelings about the consumption experience.
Indeed, customer satisfaction is the consequence of customer expectation on the
services and products that they have received from providers. Therefore, they have reached a unique state in which satisfaction is defined as the comparison between expectations and perceived performance.

1.2.6 THE DISTINCTION BETWEEN SERVICE QUALITY AND CUSTOMER SATISFACTION

A review of the emerging literature suggests that there appears to be relative consensus among marketing researchers that service quality and customer satisfaction are separate constructs which is unique and share a close relationship (Oliver, 1993). Many studies of consumer satisfaction have been conducted in service settings, and, generally, researchers agree that the two constructs are conceptually distinct (Bitner, 1990). The number of key elements that distinguish customer satisfaction from service quality are given below.

<table>
<thead>
<tr>
<th><strong>Customer Satisfaction</strong></th>
<th><strong>Service Quality</strong></th>
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<tbody>
<tr>
<td>Customer satisfaction can result from any dimension, whether or not it is quality related.</td>
<td>The dimensions underlying quality judgements are rather specific.</td>
</tr>
<tr>
<td>Customer satisfaction judgments can be formed by a large number of non-quality issues, such as needs, equity, perceptions of fairness.</td>
<td>Expectations for quality are based on ideas or perceptions of excellence.</td>
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<tr>
<td>Customer satisfaction is believed to have more conceptual antecedents.</td>
<td>Service quality has less conceptual antecedents.</td>
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<tr>
<td>Satisfied judgments do require experience with the service or provider.</td>
<td>Quality perceptions do not require experience with the service or provider.</td>
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1.2.7 PERCEIVE SERVICE QUALITY

Perceive service quality and service qualities are two concepts that deal with together with the concept of marketing (Schneider and White, 2004). Perceive service quality is a scale for firm to measure how much they were
successful to cover their customer purpose (Zeithaml et al., 2006). According to Parasuraman, Fornell, and Lehmann (1994), customer assigned their perception of the services that firm’s serves for their customers according their experience of the process of the firm’s service delivered. On the other hands, marketers believe that perceive service quality compose of two main concepts including customer expectation and customer perception (Lehtinen, 1982; Zeithmal, 1988; Gronroos, 1988; Parasuraman, Zeithaml, and Berry 1985, 1988; Mersha, 1992)

1.2.8 CUSTOMER EXPECTATION

One of the important issues that marketers faced, is what the customers expect from the service purchased. Indeed, it is the first and crucial stage in delivering service quality.

Customer expectation revolves around their conviction about the products and services that they receive from the organization and company that serves them. It is comprehended as the reference point against which the performance of the service provided is judged. This understanding is imperative for marketers because customers compare the performance or quality of the services received and determines these as the reference points when they experience and evaluate the service quality (Zeithaml et al., 2006).

1.2.9 CUSTOMER PERCEPTION

Customers’ perceptions are formed subsequent to their experience of the services received from an organization. Furthermore, the level of previous customer experience with certain services that serve by other firms can impact on customers’ perception of service quality. Researchers believe that perception and expectation are strong relative concepts (Parasuraman, Zeithaml, and Berry, 1985; Mersha, 1992; Avkiran, 1994). Customers’ perception results from how
customers recognize service quality; customers’ expectations however can be shaped through the influence of other people.

1.2.10 PERCEIVED QUALITY AND CUSTOMER SATISFACTION

Throughout this decade, many researchers and marketers have tried to reveal the relationship between service quality and customer satisfaction. Today, customers’ perceived service quality and expectations are two interesting factors among researchers because they believe that these factors indirectly affect customer satisfaction. Customer satisfaction is an outcome of service quality and a golden factor that can influence on organization’s profit and success (Parasuraman, 1994).

According to disconfirmation theory, there are two factors that affect customer satisfaction and this concept is expressed in following equation: (Customer perception of performance – customer’s expectation = customer satisfaction).

In this model, customers’ expectation can predict the level of customer satisfaction because it consists of customer anticipation about what is likely to happen and desired by them from the service that they have received. On the other hand, researchers define perceived service quality as the level of difference between consumers’ perception and expectations (Parasuraman, 1988). According to customer satisfaction and customer perceived service quality, managers can enhance customer satisfaction by improving service performance (customer perception), or decrease customer expectation, or both.

1.3 SERVICE QUALITY IN LIFE INSURANCE

Life insurance providers offer services that are credence products with very few cues to signal quality. It has been suggested that consumers usually rely
on extrinsic cues like brand image to ascertain and perceive service quality (Gronroos, 1984). This factor is especially true for a “pure” service such as insurance, which has minor tangible representations of its quality and is highly relational during most transactions. There is also a lack of price signal in the market due to specialized customer needs and difficulty in comparing prices; thus consumers cannot rely solely on price as an extrinsic cue to signal quality.

The outcomes of life insurance purchase are often delayed, and thus do not allow immediate post-purchase valuation. As such, the consequences of a purchase do not produce an immediate reaction towards overall satisfaction. This situation is more apparent as the future benefits of the “product” purchased are difficult to foresee and take a long time to “prove” its effects (Crosby and Stephens, 1987). Infrequent purchase and “usage” of such credence products by consumers would mean an inability or difficulty in forming service expectations due to limited understanding of and familiarity with the service (Johnston et al., 1984). At the same time, because of the amount of money that is typically invested in an insurance policy, customers seek long-term relationships with their insurance companies and respective agents in order to reduce risks and uncertainties (Berry, 1995).

Pure services like insurance may, therefore, conjure different expectations than that of services that include tangible products (Toran, 1993). An insurance policy is almost always sold by an agent who, in 80% of the cases, is the customer’s only contact (Richard and Allaway, 1993; Clow and Vorhies, 1993; Crosby and Cowles, 1986). Customers are, therefore, likely to place a high value on their agent’s integrity and advise (Zeithaml et al., 1993) The quality of the
agent’s service and his/her relationship with the customer serves to either mitigate or aggravate the perceived risk in purchasing the life insurance product.

Putting the customer first, and, exhibiting trust and integrity have found to be essential in selling insurance (Slattery, 1989). Sherden (1987) laments that high quality service (defined as exceeding “customers’ expectations”) is rare in the life insurance industry but increasingly demanded by customers. Toran (1993) points out that quality should be at the core of what the insurance industry does. Customer surveys by Prudential have identified that customer want more responsive agents with better contact, personalized communications from the insurer, accurate transactions, and quickly solved problems (Pointek, 1992). A different study by the National Association of Life Underwriters found other important factors such as financial stability of the company, reputation of the insurer, agent integrity and the quality of information and guidance from the agent (King, 1992). Clearly, understanding consumers’ expectations of life insurance agent’s service is crucial as expectations serve as standards or reference points against which service performance is assessed (Walker and Baker, 2000). Technology has also become an important factor in how the agent operates in the field including other functions such as distribution, claim costs and administration (Anonymous, 2004).

Research has shown that the quality of services and the achievement of customer satisfaction and loyalty are fundamental for the survival of insurers. The quality of after sales services, in particular, can lead to very positive results through customer loyalty, positive WOM, repetitive sales and cross-selling (Taylor, 2001). However, many insurers appear unwilling to take the necessary actions to improve their image. This creates problems for them as the market is
extremely competitive and continuously becomes more so (Taylor, 2001). Previous studies, notably those of Wells and Stafford (1995), the Quality Insurance Congress (QIC) and the Risk and Insurance Management Society (RIMS) (Friedman, 2001a, 2001b), and the Chartered Property Casualty Underwriters (CPCU) longitudinal studies (Cooper and Frank, 2001), have confirmed widespread customer dissatisfaction in the insurance industry, stemming from poor service design and delivery. Ignorance of customers’ insurance needs (the inability to match customers perceptions with expectations), and inferior quality of services largely account for this.

The American Customer Satisfaction Index shows that, between 1994 and 2002, the average customer satisfaction had gone down by 2.5% for life insurance and 6.1% for personal property insurance respectively (www.theacsi.org). In Greece, for example, 48% of consumers consider that the industry as a whole is characterized by lack of professionalism. It is therefore not surprising that measurement of service quality has generated, and continues to generate, a lot of interest in the industry (Wells and Stafford, 1995). Several metrics have been used to gauge service quality.

In the United States, for example, the industry and state regulators have used "complaint ratios" in this respect (www.ins.state.ny.us). The “Quality Score Card", developed by QIC and RIMS, has also been used. However, both the complaints ratios and the quality scorecards have been found to be deficient in measuring service quality and so a more robust metric is needed.

Although service quality structure is found rich in empirical studies on different service sectors, service quality modeling in life insurance services is not adequately investigated. Further, for service quality modeling, a set of
dimensions is required, but there seems to be no universal dimension; it needs to be modified as per the service in consideration. Thus, the dimensions issue of service quality requires reexamination in context of life insurance services.

1.4 SERVICE QUALITY MODELS

Many different models have been developed to measure service quality delivered by firms in many businesses. It is important to review service quality models because of its relation with customer satisfaction. Thus, service quality has become a major area of interest of practitioners, managers and researchers because of its impact on customer satisfaction, customer loyalty, and of course company profitability. The brief discussions on the models are as below:

1.4.1 TECHNICAL AND FUNCTIONAL QUALITY MODEL (GRONROOS, 1984)

A firm in order to compete successfully must have an understanding of consumer perception of the quality and the way service quality is influenced. Managing perceived service quality means that the firm has to match the expected service and perceived service to each other so that consumer satisfaction is achieved. This model identified three components of service quality, namely: technical quality; functional quality; and image.

1. Technical quality is the quality of what the consumer actually receives as a result of his/her interaction with the service firm and is important to him/her and to his/her evaluation of the quality of service.

2. Functional quality is how he/she gets the technical outcome. This is important to him and to his/her views of service he/she has received.

3. Image is very important to service firms and this can be expected to build up mainly by technical and functional quality of service including the
other factors (tradition, ideology, word of mouth, pricing and public relations).

1.4.2 GAP MODEL (PARASURAMAN ET AL., 1985)

Parasuraman et al. (1985) proposed that service quality is a function of the differences between expectation and performance along the quality dimensions. They developed a service quality model based on gap analysis. The various gaps visualized in the model are:

Gap 1: Difference between consumers’ expectation and management’s perceptions of those expectations, i.e. not knowing what consumers expect.

Gap 2: Difference between management’s perceptions of consumer’s expectations and service quality specifications, i.e. improper service-quality standards.

Gap 3: Difference between service quality specifications and service actually delivered i.e. the service performance gap.

Gap 4: Difference between service delivery and the communications to consumers about service delivery, i.e. whether promises match delivery?

Gap 5: Difference between consumer’s expectation and perceived service. This gap depends on the size and direction of the four gaps associated with the delivery of service quality on the marketer’s side.

According to this model, the service quality is a function of perception and expectations and can be modeled as:

$$SQ = \frac{1}{k} \sum \delta P_{ij} \cdot \delta E_{ij}$$

Where:

$$SQ$$ overall service quality; $$k$$ number of attributes

$$P_{ij}$$ Performance perception of stimulus $$i$$ with respect to attribute $$j$$. 
Eij \( \frac{1}{4} \) Service quality expectation for attribute j that is the relevant norm for stimulus i.

This exploratory research was refined with their subsequent scale named SERVQUAL for measuring customers’ perceptions of service quality. (Parasuraman et al., 1988). At this point the original ten dimensions of service quality collapsed into five dimensions: reliability, responsiveness, tangibles, assurance (communication, competence, credibility, courtesy, and security) and empathy which capture access and understanding/knowing the customers. Later SERVQUAL was revised in 1991 by replacing “should” word by “would” and in 1994 by reducing the total number of items to 21, but five dimensional structure remaining the same. In addition to this empirical research, the authors characterized and further delineated the four gaps identified in their research of 1985. This led to extended service quality model. According to this extended model most factors involve communication and control process implemented in organizations to manage employees.

**1.4.3 ATTRIBUTE SERVICE QUALITY MODEL (HAYWOOD-FARMER, 1988)**

This model states that a service organization has “high quality” if it meets customer preferences and expectations consistently. According to this, the separation of attributes into various groups is the first step towards the development of a service quality model. In general, services have three basic attributes: physical facilities and processes; people’s behaviour; and professional judgment. Each attribute consists of several factors.

In this model, each set of attributes forms an apex of the triangle. Too much concentration on any one of these elements to the exclusion of other may be appropriate it may lead to disaster for e.g. too much emphasis on procedures
may give an impression to the customer that he will be processed as per his sequence. The author tried to map different type of service settings as per degree of contact and interaction, degree of labor intensity and degree of service customization into this model. For example services, which are low in terms of customers’ contact customization and labour intensity (utilities, transportation of goods etc.), Are closer to the physical facility and process attribute of the model. Thus, the model suggests that special care at this instant must be taken to make sure that equipment is reliable and easy for the customer to use.

**1.4.4 SYNTHESIZED MODEL OF SERVICE QUALITY (BROGOWICZ et al., 1990)**

A service quality gap may exist even when a customer has not yet experienced the service but learned through word of mouth, advertising or through other media communications. Thus there is a need to incorporate the potential customers’ perceptions of service quality offered as well as actual customers’ perceptions of service quality experienced.

This model attempts to integrate the traditional managerial framework, service design and operations and marketing activities. The purpose of this model is to identify the dimensions associated with service quality in a traditional managerial framework of planning, implementation and control. The synthesized model of service quality considers three factors, viz. company image, external influences and traditional marketing activities as the factors influencing technical and functional quality expectations

**1.4.5 PERFORMANCE ONLY MODEL (CRONIN AND TAYLOR, 1992)**

The authors investigated the conceptualization and measurement of service quality and its relationship with consumer satisfaction and purchase
intentions. They compared computed difference scores with perception to conclude that perceptions only are the best predictor of service quality. They argued on the framework of Parasuraman et al. (1985), with respect to conceptualization and measurement of service quality and developed performance only measurement of service quality called SERVPERF by illustrating that service quality is a form of consumer attitude and the performance only measure of service quality is an enhanced means of measuring service quality. They argued that SERVQUAL confounds satisfaction and attitude. They stated that service quality can be conceptualized as “similar to an attitude”, and can be operationalized by the adequacy-importance model. In particular, they maintained that Performance instead of “Performance-Expectation” determines service quality. Service quality is evaluated by perceptions only without expectations and without importance weights according to the formula:

\[
SQ = \frac{1}{k} \sum_{j=1}^{k} P_{ij}
\]

Where:

\[
SQ = \text{overall service quality};
\]

\[
k = \text{the number of attributes};
\]

\[
P_{ij} = \text{performance perception of stimulus i with respect to attribute j}.
\]

1.4.6 IDEAL VALUE MODEL OF SERVICE QUALITY (MATTSSON, 1992)

In majority of the studies on service quality “expectation is treated as belief about having desired attributes as the standard for evaluation”. However, this issue needs to be examined in the light of other standards such as experience based, ideal, minimum tolerable and desirable. The model argues for a value
approach to service quality, modeling it as an outcome of satisfaction process. This value-based model of service quality suggests the use of a perceived ideal standard against which the experience is compared. The implicit negative disconfirmation on a pre-conscious value level, is then hypothesized to determine satisfaction on a “higher” attitude level. This negative disconfirmation is the major determinant of consumer satisfaction, more attention should be given to cognitive processes by which consumers’ service concepts are formed and changed.

1.4.7 IT ALIGNMENT MODEL (BERKLEY AND GUPTA, 1994)

Investments in information technology (IT) sectors are generally aimed at productivity of efficiency gains with a little attention to improve customer service and long-run customer effectiveness. This model links the service and the information strategies of the organization. It describes the use of IT for improving service quality through a number of case studies from a variety of sectors (banking, courier, transportation, manufacturing and services industries).

This model describes in detail where IT had been used or could be used to improve specific service quality dimensions including reliability, responsiveness, competence, access, communications, security, understanding and knowing the customers. Through some case studies use of IT for quality control (collect customer data, monitor operations and facilitate service) is also demonstrated. According to the model, it is important that service quality and information system (IS) strategies must be tightly coordinated and aligned. The model explains the process of aligning service and aligning strategies.
1.4.8 ATTRIBUTE AND OVERALL AFFECT MODEL (DABHOLKAR, 1996)

The author proposed two alternative models of service quality for technology-based self-service options. Self-service is becoming popular day by day owing to the high cost of labor in service deliveries. The attribute model is based on what consumers would expect from such option. It is based on the cognitive approach to decision making, where consumers would use a compensatory process to evaluate attributes associated with the technology based self service option in order to form expectations of service quality. The overall affect model is based on the consumers’ feeling towards the use of technology.

It is based on an effective approach to decision making where consumers would use overall predispositions to form expectation self-service quality for a technology-based self-service option. In both the models expected service quality would influence intentions to use technology-based self-service option.

1.4.9 MODEL OF PERCEIVED SERVICE QUALITY AND SATISFACTION (SPRENG AND MACKOY, 1996)

This model attempts to enhance the understanding of the constructs perceived service quality and consumer satisfaction. This model is modification to Oliver’s (1993) model. The model highlights the effect of expectations, perceived performance desires, desired congruency and expectation disconfirmation on overall service quality and customer satisfaction. These are measured through a set of ten attributes of advising (convenience in making an appointment, friendliness of the staff, advisor listened to my questions, the advisor provided accurate information, the knowledge of the advisor, the advice was consistent, advisor helped in long-range planning, the advisor helped in
choosing the right courses for career, advisor was interested in personal life, and the offices were professional).

1.4.10 PCP ATTRIBUTES MODEL (PHILIP AND HAZLETT, 1997)

The authors propose a model that takes the form of a hierarchical structure – based on three main classes of attributes – pivotal, core and peripheral. According to the model, every service consists of three, overlapping, areas where the vast majority of the dimensions and concepts which have thus far been used to define service quality. These ranked levels are defined as – pivotal (outputs), core and peripheral (jointly representing inputs and processes).

The pivotal attributes, located at the core, are considered collectively to be the single most determining influence on why the consumer decided to approach a particular organization and exert the greatest influence on the satisfaction levels. They are defined as the “end product” or “output” from the service encounter; in other words what the consumer expects to achieve and receive, perhaps even “take away, when the service process is duly completed. Core attributes, centered around the pivotal attributes, can best be described as the amalgamation of the people, processes and the service organizational structure through which consumers must interact and/or negotiate so that they can achieve/receive the pivotal attribute.

The third level of the model focuses on the peripheral attributes which can be defined as the “incidental extras” or frills designed to add a “roundness” to the service encounter and make the whole experience for the consumer a complete delight. When a consumer makes an evaluation of any service encounter, he is satisfied if the pivotal attributes are achieved, but as the service is used more frequently the core and peripheral attributes may begin to gain importance.
1.4.11 RETAIL SERVICE QUALITY AND PERCEIVED VALUE MODEL
(SWEENEY ET AL., 1997)

The influence of service quality on value and willingness to buy into a specific service encounters through two alternative models. Value can be defined as a comparison between what consumers get and what they give, suggesting that the value is a comparison of benefits and sacrifices. (Zeithaml et al., 1988). Value construct used in this model is “value for money”.

Model 1: this model highlights that in addition to product quality and price perceptions, functional service quality and technical service quality perceptions both directly influence value perceptions.

Model 2: this model highlights that in addition functional service quality perceptions directly influence consumers’ willingness to buy. Functional service quality perceptions also influence technical service quality perceptions, which in turn influence product quality perceptions and neither of the two directly influence value perceptions. On analysis, of modification indices for model 2 (being superior to model 1) it is possible to make significant improvement in this model by allowing technical service quality to influence perceived value directly.

1.4.12 SERVICE QUALITY, CUSTOMER VALUE AND CUSTOMER SATISFACTION MODEL (OH, 1999)

The author proposed an integrative model of service quality, customer value and customer satisfaction. The proposed model focuses mainly on post purchase decision process. Arrows in the model indicate causal directions.

The model incorporates key variables such as perceptions, service quality, consumer satisfaction, customer value and intentions to repurchase. Finally the
word of mouth communication intention is conceptualized as a direct, combined function of perceptions, value, satisfaction and repurchase intentions.

The model provides evidence that customer value has a significant role in customer’s post-purchase decision-making process. It is an immediate antecedent to customer satisfaction and repurchase intentions. Results also indicate that perceived price has a negative influence on perceived customer value and no relationship with perceived service quality.

1.4.13 ANTECEDENTS AND MEDIATOR MODEL (DABHOLKAR ET AL., 2000)

A comprehensive model of service quality includes an examination of its antecedents, consequences, and mediators to provide a deeper understanding of conceptual issues related to service quality. This model examines some conceptual issues in service quality as: the relevant factors related to service quality better conceived as components or antecedents and the relationship of customer satisfaction with behavioral intentions.

1.4.14 INTERNAL SERVICE QUALITY MODEL (FROST AND KUMAR, 2000)

The authors have developed an internal service quality model based on the concept of GAP model (Parasuraman et al., 1985). The model evaluated the dimensions, and their relationships, that determine service quality among internal customers (front-line staff) and internal suppliers (support staff) within a large service organization.

The internal gap 1 shows the difference in support staff’s perception (internal supplier) of front-line staff’s expectation (internal customers). Internal gap 2 is the significant difference between service quality specifications and the service actually delivered, resulting in an internal service performance gap.
Internal gap 3 is the gap which focuses on the front-line staff (internal customers). The gap is based on the difference between front-line staff’s expectations and perceptions of the support staff’s (internal supplier) service quality.

1.4.15 INTERNAL SERVICE QUALITY DEA MODEL (SOTERIOU AND STAVRINIDES, 2000)

Service quality is an important factor that must be considered when assessing a bank branch performance. The branch may report high volume of products and services offered as well as profit, but lose its long-term advantage owing to eroding service quality. The authors presented a service quality model that can be used to provide directions to a bank branch for optimal utilization of its resources. The model does not aim to develop the service quality measures, rather guides how such measures can be incorporated for service quality improvements.

The model points out resources that are not properly utilized. The inputs to the model consist of two sets: consumable resources such as personnel, space, time etc. and the number of accounts in different categories. The output of the model is the level of service quality perceived by the personnel of the branch. The data envelope analysis (DEA) model compares branches on how well they transform these resources (inputs) to achieve their level of service quality (output) given the client base. The DEA model will identify under-performers and suggest ways for their improvement.

The input minimization DEA model will provide information on how much could the consumable resources be reduced while delivering the same level of service quality, while the output maximization DEA model will provide
information on how much service quality can be improved using the same consumable resources.

1.4.16 INTERNET BANKING MODEL (BRODERICK AND VACHIRAPORNPUK, 2002)

One of the key challenges of the internet as a service delivery channel is how service firms can manage service quality as these remote formats bring significant change in customer interaction and behavior. This study proposes and tests a service quality model of internet banking. The research uses participant observation and narrative analysis of UK internet web site community to explore how internet banking customers perceive and elements of this model. In the context of the internet, five key elements are treated as central influences on perceived service quality: They are: customer expectations of the service; the image and reputation of the service organization; aspects of the service setting; the actual service encounter; and customer participation.

1.4.17 IT-BASED MODEL (ZHU Et al., 2002)

This model highlights the importance of information technology (IT)-based service options. Service providers are using IT to reduce costs and create value-added services for their customers. It proposes a service quality model that links customer perceived IT-based service options for traditional service dimensions. The model attempts to investigate the relationship between IT-based services and customers’ perceptions of service quality.

The IT-based service constructs is linked to service quality as measured by SERVQUAL (Parasuraman et al., 1988, 1991). Several key variables affecting customers’ views of IT-based services are identified. The model focuses on the linkages among the service dimensions as measured by SERVQUAL, the
constructs representing the IT-based service quality, preferences towards traditional services, experiences in using IT-based services, and perceived IT policies. The impacts of these constructs on perceived service quality and customer satisfaction are also specified.

1.4.18 MODEL OF E-SERVICE QUALITY (SANTOS, 2003)

Service quality is one of the key factors in determining the success or failure of electronic commerce. E-service can be defined as the role of service in cyberspace (Rust and Lemon, 2001). This study proposes a conceptual model of e-service quality with its determinants. It is proposed that e-service quality has incubative (proper design of a web site, how technology is used to provide consumers with easy access, understanding and attractions of a web site) and active dimensions (good support, fast speed, and attentive maintenance that a web site can provide to its customers) for increasing hit rates, stickiness, and customer retention.

1.5 SERVICE QUALITY GAP

In this research, perceived service quality model, which is the difference between customer’s expectation and satisfaction, is used as a research strategy. Respondents should complete two different types of questions. One category asks questions based on their perception or expectation of a service delivered to them and another category asks them some questions bases on their satisfaction or experience. So SQ introduces service quality whereas P and E introduce perception and expectation respectively.

Service quality = perceived – experience

SQ: Service Quality, P: Customers’ Perception, E: Customers’ Expectation so, (P – E = SQ), is a scale to examine the expectation or perception of a customer about the quality of a specific product or service (SQ).
Negative Q indicates that there is a gap in service quality. Positive Q indicates that the satisfaction level of consumers is higher than their expectation.

1.6 STATEMENT OF THE PROBLEM

The liberalization of Indian economy ushered in an era of competitive marketing leading to the radical changes in the entire gamut of products and services. The service sector, hitherto limited in nature and scope, changed into an aggressive mode appropriating the front stage touching almost every sphere of human activity, viz., banking, insurance, information technology, welfare etc. and accounted for approximately two-third of worldwide GNP right from the beginning of the twenty first century (Kara et al., 2005). Delivering quality service is considered an essential strategy for success and survival in today's competitive environment (Dawkins and Reichheld, 1990; Parasuraman et al., 1985; Reichheld and Sasser 1990; Zeithaml et al., 1990). Perceived service quality is defined as global judgment, or attitude, relating to the superiority of the service (Parasuraman et al., 1988).

In the huge service sector, insurance sector is one of the most important entities which have been growing relatively fast in India. At present there are twenty three players in the Indian life insurance industry out of which Life Insurance Corporation is one of the leading public companies, holds largest number of policies in the world to suit different financial requirements of an individual. With a greater choice and an increasing awareness, there is a continuous increase in the customers’ expectations and they demand better quality service.

Therefore, to sustain in the market, service quality becomes a most critical component of competitiveness for Life Insurance Corporation of India. Although,
by providing quality services to its customers, the Corporation can differentiate itself from other service firms and will be able to improve its profitability.

At this backdrop, a study on customers’ perception about service quality in the minds of customers and an analysis over the services of Life Insurance Corporation sound interesting. Such an analysis will provide LIC, a quantitative estimate of their services being perceived with intricate details such as whether LIC are meeting or not meeting the customer's expectations. Therefore, in this study an attempt has been made to seek answer to the research questions such as how are customers satisfied with the service provided by the LIC in the study area? and what is the effect of service quality on customer satisfaction? Hence, in the present study, an attempt has been made to analyze the service quality and its effect on customer satisfaction in insurance sector (with special reference to LIC Salem Division, Tamilnadu).

1.7 RESEARCH GAP

The quality of the service is a pre-requisite for financial institution market performance and subsequently economic performance. The companies that offer the best technologies and great quality in every service and that have trained and motivated its employees in order to provide an efficient service are creating adequate framework for the success of a relationship marketing orientation. Most of the researchers are dealing with identification of attributes of service quality. Some work has been done in the area of identification of factor related to service quality in the various service industries. Financial sector as such is broad and has a wide scope and includes Banks, Insurance companies and Brokerage Firms.

The researcher has not come across any study specifically dealing with service quality attributes of Life Insurance Sector in India. There is a gap in the
field of investigation specifically in the area of life insurance particularly in Salem division, what the researcher wants to study and get inside into the quality of service aspect of life insurance service in Salem division, in Tamilnadu.

1.8 SCOPE OF THE STUDY

This study throws light on the service quality and its impact on policy holder. An attempt has been made in this research to analyze how Life Insurance Corporation are attracting various customers and how the policy holder are satisfied with the service quality provided by the Life insurance Corporation of India. This study will be helpful to draw up further policy for improving customer satisfaction and will act as a secondary data for further research.

1.9 RESEARCH OBJECTIVES

The present study is designed to analyze the effect of service quality on policy holder satisfaction. The specific objectives of the study are;

1. To study the growth and progress of Insurance industry in India.
2. To assess the perception and expectation of the policy holders on service quality of the study unit.
3. To examine the level of customer satisfactions with services provided by the study unit.
4. To find the effect of service quality dimensions on customer satisfaction.
5. To find results and suggest remedial measures to the company for the improvements.
1.10 hypotheses

Based on the objectives, the hypotheses formulated for the study are:

1. There is no significant difference in the mean scores between the level of perception and the level of expectation (GAP) on the various service quality dimensions.

2. There is no positive relationship between perceived value of the service quality dimension such as tangible, reliability, assurance, responsiveness and empathy and assurance and perceived value of overall service quality.

3. There is no significant difference between demographic variables (sex, age, educational qualifications, occupation and income) and level of perception about service quality.

4. There is no significant difference in the mean scores obtained by the respondents for policy holders satisfaction.

5. There is no positive relationship between perceived value of the customer satisfaction factors such as location and timeliness, basic amenities, service qualities, ease of procedures, company image, company-client relationship, technology and overall customer satisfaction.

6. There is no significant difference between demographic variables of the respondents and their level of satisfaction with insurance services.

7. The greater the service quality, the higher will be the policy holders satisfaction.
1.11 RESEARCH METHODOLOGY

The study explores the effective service quality on customer satisfaction with Life Insurance Corporation of India Salem division. The descriptive research design has been followed to fulfill the objectives of the study.

1.11.1 Research Design

The main objective is to see the factor affecting service quality which ultimately leads to customer satisfaction of life insurance customer in the study area. Selected branches of Life Insurance Corporation of India, operating in the Salem division were chosen for the study. The present study has been undertaken to study the customer’s perception of service quality offered by the Life Insurance Company of India in the study area more specifically, this study attempts to access the factors which affect the service quality perception of life insurance customer those are in line with the objectives of the study.

1.11.2 Area of the Study

Salem is a city and a Municipal Corporation in Salem District in the Indian State of Tamil Nadu. Salem, which is also called Mango city, is located in the North Central part of the state, about 340 kilometers southwest of the state capital, Chennai.

Salem is the fifth biggest city in Tamil Nadu in terms of population after Chennai, Coimbatore, Madurai, and Tiruchirappalli respectively. The area of the city is 100 km². It is the fifth Municipal Corporation and Urban agglomeration commissioned in Tamil Nadu after Chennai, Madurai, Coimbatore, and Tiruchirappalli respectively.

As per the 2011 census results, Salem Urban Agglomeration has a population of 919,150. City Population grew from 696,760 in 2001 to 831,038 in
2011. As of the 2001 Indian Census, the Salem Urban Agglomeration had a total population of 751,438, encompassing the town of Salem (696,760), Kondalampatti (16,808), Kannankuruchi (14,994), Neykkarappatti (9,869), Mallamooppampatti (6,783) and Dalavaipatti (6,224). The population in 1991 was 499,024. Males constitute 51 per cent of the population and females 49 per cent. Salem has an average literacy rate of 84 per cent which is higher than the national average of 64.5 per cent; male literacy is 88 per cent, and female literacy is 78 per cent. 9 per cent of the population is under 6 years of age in Salem.

Salem is one of the major producers of traditional silver anklets, which are popular among women. It boasts large textile, steel, automotive, poultry and sago industries. Salem also has one of the largest magnetite deposits in India. Companies like Dalmia and TANMAG have mines here. It has also got rich bauxite & mineral reserves.

The Leigh Bazaar market is a large regional market for agro products. It also has rich industrial base with the Salem steel plant, SISCOL, MALCO, CHEMPLAST and the Thermal and Hydel power plant at Mettur contribute towards power supply to the state.

Silk and cotton fabrics from Salem are sold throughout Tamil Nadu and are a big buy. The Indian Institute of Handloom Technology, the second of its kind in India, is found here. Salem is one of the chief producers of customary silver anklets, which are a rage with the women-folk here. The Leigh Bazaar market is known for selling agricultural produce and is usually abounding with visitors and shoppers. Fabric exporting has been the oldest business in Salem. It has always been known for exporting fabrics and clothes and is still consistently doing so.
Due to vast amount of potential growth, more number of private sector insurance companies is in competition with Life Insurance Corporation. Therefore there is an intense competition prevailed between public and private sector insurance companies. Hence, this division is purposively selected by the researcher to analyze the Quality of services provided by the Life Insurance Corporation and customer satisfaction with insurance services.

1.11.3 Data Sources

In order to have an accurate data, the researcher has gathered data through both primary and secondary sources.

**Primary Source**: Data was gathered by researcher using questionnaire and by interviewing variety of customers directly. This direct input in the form of customer voice has brought in the conceptual clarity.

**Secondary Source**: Secondary source of data used by researcher includes: published articles, research papers, published books, different research works done previously, relevant papers or journals and magazine. Researcher also used other different types of reports from Internet sites.

1.11.4 Population

The population of the study constitutes the total number of policy holders in the Life Insurance Corporation of India, Salem Division, Tamil Nadu.

1.11.5 Sample Size

The Salem Division consist of 18 branches. Since the number of policy holders in each branch was large, the policy holders could not be selected on a proportional basis, a sample of 360 policy holders, 20 from each branch were selected on the basis of convenience sampling method. The list of branches in the Salem Division is given in the succeeding page.
LIST OF BRANCHES IN THE SALEM DIVISION

<table>
<thead>
<tr>
<th>S. No</th>
<th>Branch Code</th>
<th>Branch Name</th>
</tr>
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<tbody>
<tr>
<td>01</td>
<td>76A</td>
<td>Salem North Branch</td>
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<tr>
<td>02</td>
<td>76X</td>
<td>Salem East Branch</td>
</tr>
<tr>
<td>03</td>
<td>766</td>
<td>Salem South Branch</td>
</tr>
<tr>
<td>04</td>
<td>70B</td>
<td>Career Agents Branch</td>
</tr>
<tr>
<td>05</td>
<td>703</td>
<td>Attur Branch</td>
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<tr>
<td>06</td>
<td>767</td>
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<tr>
<td>07</td>
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<td>08</td>
<td>76N</td>
<td>Hosur Branch</td>
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<tr>
<td>09</td>
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<td>Komarapalayam Branch</td>
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<td>10</td>
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<tr>
<td>18</td>
<td>705</td>
<td>Thiruchengode Branch</td>
</tr>
</tbody>
</table>

1.11.6 Instrument

The aim of this study was to examine the service quality as perceived by policy holders its effect on policy holders’ satisfactions. The questionnaire was the main form of data collection.

The survey instrument developed in this study consisted of three major sections. The first section contains questions about personal profiles of the respondents including gender, age, educational qualifications, occupation and income. The second section comprises five constructs measuring of SERVQUAL as proposed by Parasuraman et al. (1988). The instrument used, is a seven-point Likert scales, representing a range of attitudes from 1 – strongly disagree to 7 – strongly agree to measure the perception and expectation of the policy holders and the third section comprises items that measure Customer satisfaction developed by the researcher.
This questionnaire was pilot studied through its convenient distribution to 50 “willing respondents” who were selected on a judgmental basis. These respondents were asked to fill up the SERVQUAL items and Customer satisfaction item and inform the researcher for further improvement if there was any kind of problem with regards to wording, expressions and clarity of the questions. This pilot study resulted in the deletion of no item. As a result the questionnaire contained 22 items including four items of tangibles, five items of reliability, four items of responsiveness, four items of assurance, and five items of empathy and 38 items for customer satisfaction.

1.11.7 Statistical Techniques

The statistical tests used in the study include, Simple Percentage, Mean, Standard Deviation, Chi-square test, t-test, ANOVA test, Correlation and Regression analysis. SPSS (Statistical Package for Social Sciences) version 16.0 was used to compute and analyze the data.

1.12 PERIOD OF THE STUDY

The study was conducted from 2010 to 2012, during which the required data were collected for the study.

1.13 VARIABLES USED FOR THE STUDY

The following variables are used to measure the perception of the policy holders on service quality and its effect on their satisfaction. The demographic variable in the study include age, sex, educational qualifications, profession, and income. SERVQUAL dimensions Tangibles, Reliability, Responsiveness, Assurance, and Empathy. Variables associated with Location & Timeliness, Basic Amenities, Service Quality, Ease of Procedures, Company Image,
Company- Client Relationship and technology are used to measure customer satisfaction with insurance services.

1.14 LIMITATIONS OF THE STUDY

Like other empirical studies, this study is not without its limitations.

This study was carried out mainly in Salem district of Tamilnadu therefore; the results obtained may not be pertinent to the country as a whole. Of course, the study may be extended to other States of India.

The present study has been conducted by taking a sample of 360 customers of Life Insurance Corporation (a public company), ignoring the private life insurance companies. This cannot lead to the generalizability of the findings and the results may not be implied conclusively to the whole life insurance industry. Additional studies are recommended to fill this gap.

The study can be strengthened by increasing the sample size as the data analysis results and findings may vary substantially when the sample size is increased or decreased. As only one industry may not represent whole industries in India, involvement of more industries would create a more diffused result and findings.

The study was confined to a public sector insurance company, i.e., Life Insurance Corporation of India only. The private sector insurance companies were not considered for the study. The study was carried out in Salam Division of Tamilnadu state. Thus, its finding cannot be generalized to other area due to geographical variation. The study is purely based on the policy holders’ opinion. The researcher felt that the policy holders might express a biased opinion, which may limit the validity of the study. Respondents’ opinion may change from time
to time and the responses are subject to variation depending upon the situation and the attitude of the respondents at the time of the survey.

1.15 CHAPTER SCHEMES

The following chapter scheme has been adopted for the study.

Chapter I describes the introduction and design of the study, including objectives, the methodology used to collect data, sample parameters, and limitations.

Chapter II provides a detailed review of earlier studies carried out in the area service quality and customer satisfaction.

Chapter III has been devoted to the discussion of growth and development of Indian life insurance industry.

Chapter IV deals with the perception and expectation of the quality of service provided by the study unit.

Chapter V analyzes the service quality and its effect on customer satisfaction.

Chapter VI contains the summary, major findings, suggestions, conclusions and the scope of future research.