CHAPTER 6

RESULTS OF THE STUDY
Results of the Study

A small number of strategic groups capture the essential differences among firms in the industry.

**Fig: 6.1**

**Strategic Groups in Life Insurance Industry**

<table>
<thead>
<tr>
<th>Differentiation Strategy</th>
<th>Cost Leadership Strategy</th>
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</thead>
<tbody>
<tr>
<td>ICICI Prudential Life Insurance (Ludhiana, Mohali, Jalandhar)</td>
<td>Bajaj Life Insurance (Amritsar, Ludhiana, Jalandhar)</td>
</tr>
<tr>
<td>LIC of India (Mohali, Amritsar)</td>
<td>LIC of India (Jalandhar, Ludhiana)</td>
</tr>
<tr>
<td>HDFC Life Insurance (Amritsar)</td>
<td>Bajaj Life Insurance (Mohali)</td>
</tr>
<tr>
<td>ICICI Prudential Life Insurance (Amritsar)</td>
<td>HDFC Life Insurance (Jalandhar, Ludhiana)</td>
</tr>
<tr>
<td>LIC of India (Mohali)</td>
<td>SBI Life Insurance (Amritsar, Ludhiana, Mohali, Jalandhar)</td>
</tr>
</tbody>
</table>

*Source:* From data analysis

The companies represented a diverse group with respect to competitive strategies. Fig: 6.1 indicates that only a few companies are using particular strategy in all the locations, i.e. SBI Life Insurance Company and Bajaj Life Insurance Company which are following cost strategies in all the locations. Other than these companies, the rest of the companies are using different strategies at different locations. The strategies followed by each company in various locations are given in the following Tables (from Table: 6.1-Table: 6.5). The strategy which is not followed by a company is marked with a cross "X".
The LIC of India is following only two generic strategies, i.e. differentiation and cost leadership strategy. The company is not stuck in the middle and neither it is focusing any niche market on the basis of low cost or differentiation.

Table: 6.1

<table>
<thead>
<tr>
<th>Strategy</th>
<th>Location</th>
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<tbody>
<tr>
<td>Differentiation</td>
<td>Mohali, Amritsar</td>
</tr>
<tr>
<td>Cost Leadership</td>
<td>Jalandhar, Ludhiana</td>
</tr>
<tr>
<td>Stuck in the Middle</td>
<td>X</td>
</tr>
<tr>
<td>Cost Focus</td>
<td>X</td>
</tr>
</tbody>
</table>

Source: From data analysis

The ICICI Prudential Life Insurance Company is following only one generic strategy, i.e. differentiation strategy in three locations. In Amritsar, the company is stuck in the middle as it is trying to follow more than one competitive strategy. The company is not following cost or focus strategy and where it tried to follow these; it failed and became stuck in the middle.

Table: 6.2

<table>
<thead>
<tr>
<th>Strategy</th>
<th>Location</th>
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<tbody>
<tr>
<td>Differentiation</td>
<td>Ludhiana, Mohali, Jalandhar</td>
</tr>
<tr>
<td>Cost Leadership</td>
<td>X</td>
</tr>
<tr>
<td>Stuck in the Middle</td>
<td>Amritsar</td>
</tr>
<tr>
<td>Cost Focus</td>
<td>X</td>
</tr>
</tbody>
</table>

Source: From data analysis

The Bajaj Life Insurance Company is neither stuck in the middle nor following differentiation strategy. It has focused on the cost strategy only. In Amritsar and Ludhiana, it was competing by following low cost strategy while in Mohali, it was following cost focus strategy.

Table: 6.3

<table>
<thead>
<tr>
<th>Strategy</th>
<th>Location</th>
</tr>
</thead>
<tbody>
<tr>
<td>Differentiation</td>
<td>X</td>
</tr>
<tr>
<td>Cost Leadership</td>
<td>Amritsar, Ludhiana, Jalandhar</td>
</tr>
<tr>
<td>Stuck in the Middle</td>
<td>X</td>
</tr>
<tr>
<td>Cost Focus</td>
<td>Mohali</td>
</tr>
</tbody>
</table>

Source: From data analysis

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Although nothing seems wrong with the strategy of the company, still it is losing the market share consistently. The reason could be that its competitors are better than itself. Over the period of last three years it lost approximately 3.5 per cent market share from 7.565 per cent on March 31, 2006 to 4.073 per cent on March 31, 2010.

HDFC Life Insurance Company has slipped from fourth position in fiscal year ending 2006 to sixth position in fiscal year ending 2010. The company has given importance to cost leadership on one hand and emphasised on differentiation on the other hand. Focus is given low priority. As a result of this, the company is unable to leverage on any of the individual generic strategy and has stuck in the middle in Amritsar and Mohali.

### Table 6.4

<table>
<thead>
<tr>
<th>Strategy</th>
<th>Location</th>
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</thead>
<tbody>
<tr>
<td>Differentiation</td>
<td>X</td>
</tr>
<tr>
<td>Cost Leadership</td>
<td>X</td>
</tr>
<tr>
<td>Stuck in the Middle</td>
<td>Amritsar, Mohali</td>
</tr>
<tr>
<td>Cost Focus</td>
<td>Jalandhar, Ludhiana</td>
</tr>
</tbody>
</table>

*Source: From data analysis*

SBI Life Insurance is the only company in the private sector which has broke even. The company has succeeded in achieving an early break even on account of its lower cost of operations due to the large network of its Indian partner, the State Bank of India. This is depicted in the choice of strategy used by the company also. In all the locations, SBI Life is following only one strategy, i.e. cost focus. As a consequence, the company has showed a good growth, its market share increased by approximately 4 per cent from 2.31 per cent on March 31, 2006 to 6.442 per cent on March 31, 2010.

### Table 6.5

<table>
<thead>
<tr>
<th>Strategy</th>
<th>Location</th>
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</thead>
<tbody>
<tr>
<td>Differentiation</td>
<td>X</td>
</tr>
<tr>
<td>Cost Leadership</td>
<td>X</td>
</tr>
<tr>
<td>Stuck in the Middle</td>
<td>X, Amritsar, Mohali, Ludhiana</td>
</tr>
<tr>
<td>Cost Focus</td>
<td>Jalandhar</td>
</tr>
</tbody>
</table>

*Source: From data analysis*
As the market is immature, there is huge growth potential in the life insurance sector. If insurers are to meet their most important competitive challenges today, they have to fight off competition coming from new players and successfully execute a growth strategy. The life insurance companies under purview of this research are following diverse strategies. In terms of strategy formulation, it can be concluded that all the companies are clear about their focus except ICICI Prudential Life Insurance Company and HDFC Life Insurance Company which are stuck in the middle in few locations. The insurers should understand how important the strategy is. In the crowded Indian life insurance market, each company will have to invest in the strategic management to make a mark. As the competition is tough, the focus should be on satisfying customers and making them loyal. While the competitors can surely be threats, the right competitors can strengthen rather than weaken a firm’s competitive position in many industries. The presence of right competitors can yield a variety of strategic benefits that fall into four general categories: increasing competitive advantage, improving current industry structure, aiding market development, and deterring entry (Porter, 1985). Evidence suggests that the productive competition improves the performance.

6.2(2.1) A comparison of the competitive strategies of top four private life insurance companies with the public sector company i.e. LIC.

After identifying the competitive strategies followed by the life insurance companies, the next objective of this research study was to compare the strategies of the private life insurance companies with the LIC. Ideally, the strategies in insurance business focus on the formulation of an ideal mix for the insurance business so that the insurance organisations survive and thrive in a right perspective. The quality of services can be improved by formulating a fair mix of the core and peripheral services. The gap between the services promised and the services offered can be bridged over, the quality and value based personnel can make possible performance orientation and these developments can make the insurance organisations stronger enough to face the challenges and threats in the market (Jha, 1988). It has been seen that the insurance companies do not give importance to strategy. The insurance companies tend towards a strong sales orientation, since the services they sell, although necessary ones, rarely sell themselves. Potential policy holders are reluctant to think about the disaster and death, so they postpone planning for these possibilities unless they are
contacted and influenced by insurance agents. Thus the insurance companies’ mutual orientation is towards sales only. In this section, a detailed comparison between the competitive strategies pursued by private insurance companies and the public life insurance company is done. The Table: 6.6 shows the strategies adopted by the life insurance companies in different locations.

<table>
<thead>
<tr>
<th>Identified Strategies</th>
<th>LIC</th>
<th>ICICI</th>
<th>HDFC</th>
<th>Bajaj</th>
<th>SBI</th>
</tr>
</thead>
<tbody>
<tr>
<td>Differentiation</td>
<td>Mohali</td>
<td>Ludhiana</td>
<td>Mohali</td>
<td>Jalandhar</td>
<td></td>
</tr>
<tr>
<td>Cost Leadership</td>
<td>Jalandhar</td>
<td>Ludhiana</td>
<td>Amritsar</td>
<td>Ludhiana</td>
<td>Jalandhar</td>
</tr>
<tr>
<td>Cost Focus</td>
<td>Jalandhar</td>
<td>Ludhiana</td>
<td>Mohali</td>
<td>Amritsar</td>
<td>Ludhiana</td>
</tr>
<tr>
<td>Stuck in the Middle</td>
<td>Amritsar</td>
<td>Amritsar</td>
<td>Mohali</td>
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</tbody>
</table>

Source: From data analysis

The analysis shows that most of the life insurance companies are not following a particular generic strategy, but nevertheless, these companies are not doing badly. Only the two highest market share holding companies are following differentiation strategy, others have stuck to cost strategies either in the form of cost leadership or cost focus strategies. In Jalandhar and Ludhiana, all the life insurance companies except ICICI Prudential Life Insurance Company, are following cost strategies. LIC and Bajaj Allianz Life Insurance Company are following cost leadership strategy while, HDFC Standard Life Insurance Company and SBI Life Insurance Company are following cost focus strategies.

Table 6.7 shows the comparison of the generic strategies followed by the public versus the private life insurance companies. As there is only one life insurance company in life insurance sector, i.e. LIC; its strategies were compared with top four private life insurance companies, which were in the scope of this study.
Table: 6.7
Comparative Analysis of Strategies

<table>
<thead>
<tr>
<th>Strategies</th>
<th>Public Company</th>
<th>Private Companies</th>
</tr>
</thead>
<tbody>
<tr>
<td>Differentiation</td>
<td>LIC is following differentiation strategy in <em>Mohali</em> and <em>Amritsar</em>. In <em>Mohali</em>, while LIC and ICICI are following differentiation strategy, Bajaj and SBI are following cost focus strategy. HDFC is stuck in the middle in the tricity. In Amritsar, no other company is following differentiation strategy. Two companies are stuck in the middle, while other two are following cost strategies. The company is following cost leadership strategy in <em>Ludhiana</em> and <em>Jalandhar</em>. These are the only two strategies that LIC is using.</td>
<td></td>
</tr>
<tr>
<td>Cost Leadership</td>
<td>The private company following differentiation strategy is: <strong>ICICI Prudential Life Insurance Company</strong>- It is following differentiation strategy in <em>Mohali, Jalandhar</em> and <em>Ludhiana</em>. Like LIC, in <em>Mohali</em>, ICICI is also providing differentiation facility to clients. It is the only private company which is following differentiation strategy.</td>
<td></td>
</tr>
<tr>
<td>Cost Focus</td>
<td>LIC is not following cost focus strategy in any location. The reason, why LIC is not following cost focus strategy, may be that the company is large enough to implement low cost strategy in the whole market and therefore, is not required to target a small segment on the basis of low cost.</td>
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<td></td>
<td>The private companies following cost focus strategy are: <strong>HDFC Standard Life Insurance Company</strong>- In <em>Ludhiana</em> and <em>Jalandhar</em> HDFC is following cost focus strategy. In <em>Ludhiana</em>, its competitors are LIC, ICICI, Bajaj and SBI. In <em>Jalandhar</em>, while LIC is following cost leadership, it has focused on cost without directly challenging the LIC.</td>
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</table>

In *Ludhiana*, its competitors are Bajaj, HDFC and SBI. These three companies are competing on cost basis. Bajaj is using cost leadership strategy, therefore, it is vying for the same clientele as LIC. HDFC and SBI are focusing on a niche segment by following cost focus strategy. While LIC is using cost leadership strategy in *Ludhiana*, ICICI is using differentiation strategy there. In *Jalandhar*, HDFC is following cost focus strategy.

In *Ludhiana*, ICICI is also providing differentiation facility to clients. It is the only private company which is following differentiation strategy.

In *Amritsar*, this company is unchallenged, as SBI is following cost focus strategy and the other companies are stuck in the middle.

No other private companies are following cost leadership strategies.
### Results of the Study

<table>
<thead>
<tr>
<th>Strategies</th>
<th>Public Company</th>
<th>Private Companies</th>
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</table>
|            |                | **SBI Life Insurance Company** - It is following cost focus strategy in all locations i.e. Mohali, Ludhiana, Jalandhar and Amritsar. In Mohali and Ludhiana, its direct competitors are Bajaj Life Insurance Company and HDFC Life Insurance Company respectively; as these companies are also following cost focus strategies.  
**Bajaj Allianz Life Insurance Company** - Bajaj is competing on cost focus in Mohali.  
Two private sector insurance companies are stuck in the middle:  
**ICICI Life Insurance Company** - In Amritsar, ICICI is trying to follow differentiation, cost and focus strategies all together; therefore, it is stuck in the middle. In this city, the company can be said as at disadvantage because SBI Life Insurance Company is following cost focus strategy there and is better positioned to compete in that segment.  
**HDFC Standard Life Insurance Company** - HDFC Life Insurance Company is also stuck in the middle in Amritsar and Mohali. In Mohali, it is highly disadvantaged because all the competitors are following specific generic strategies. |
| **Stuck in the Middle** | The company is very clear of its strategic approach. It is following only two generic strategies and not trying to mix any two or more competitive strategies. |

The insurance companies have divided the market into various segments and on the basis of characteristics of these segments; the companies are following various generic strategies. It is quite natural that the needs and requirements of different users living in different segments, regions are not identical. Knowing and understanding the market is considered significant to the strategists since the process helps them in scanning the changing needs and requirements.
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The formulation of an optimal policy is not possible unless the characteristics of a segment are known. The comparison shows the reason why LIC still holds the major portion of market and is still growing by leaps and bounds. The government enterprise is clear of its focus. It is following only two generic strategies in the broad market, it is neither stuck in the middle nor is it targeting any market niche. ICICI Prudential Life Insurance Company and Bajaj Allianz Life Insurance Company are the only two companies which have launched a frontal assault on the market leader LIC, rest of the companies have chosen to avoid the direct confrontation and have targeted small segments in the market on the basis of low cost. The results show that out of all the private life insurance companies, the Bajaj Allianz Life Insurance Company and SBI Life Insurance Company are the only two companies with a clear strategic goal as these are following low cost strategies only in all the markets.

On studying the consonance of generic strategies and market performance, it is found that while the SBI Life Insurance Company is growing its market share fiercely, Bajaj Allianz Life Insurance Company is losing market share. The possible explanation may be that SBI Life has an advantage of a wide branch network of its holding company, State Bank of India and its six associates. Therefore, SBI Life leverages the distribution channels of the bank and is able to provide low cost to its customers without having to bear the pressure of low cost on its operations. ICICI Prudential Life Insurance Company is following differentiation strategy only and it is also stuck in the middle in one location. This possibly explains the negligible growth rate of the company. The HDFC Standard Life Insurance Company is following cost focus strategy and this company is also stuck in the middle in two locations. No wonder HDFC Standard Life Insurance Company does not figure in the top five life insurance companies anymore. Becoming stuck in the middle is often the manifestation of a firm’s unwillingness to make choices about how to compete. It tries for competitive advantage through every means and achieves none, because achieving different types of competitive advantage usually requires inconsistent actions (Porter, 1985).

Therefore, it can be said that LIC of India, Bajaj Allianz Life Insurance Company and SBI Life Insurance Company are at advantage as these are following specific generic strategies. To survive the competition ICICI Prudential Life Insurance Company and HDFC Standard
Life Insurance Company will have to adopt specific generic strategies where these are stuck in the middle.

6.2(3.1) A critical evaluation of current competitive strategies being practised by leading insurance companies.

The first objective was to identify the competitive strategies given by Michael Porter. For a business in a competitive environment, success and survival depends primarily upon creating a defendable competitive position. Porter identified three internally consistent generic strategies (which can be used singly, or in combination) for creating a defendable position in the long run and outperforming competitors in an industry. Cost leadership, differentiation and focus are the ways businesses deal with the five competitive forces that make up his general model, to create sustainable competitive advantage and thereby higher returns. The generic strategy concept is of great interest to business policy researchers because it discriminates the strategies of high performing firms from those of less successful competitors (Murray, 1988).

The cluster analysis was done to identify the competitive strategies being adopted by the top five life insurance companies (Ch. 5). The cluster analysis classified the companies into four groups on the basis of the generic strategies adopted by them. The third objective of the present study is to critically evaluate current competitive strategies being practised by the leading insurance companies. The strategic groups, as identified through the cluster analysis are following the differentiation strategy, cost leadership strategy, cost focus strategy and one group was stuck in the middle. No company is found to be using differentiation strategy in a narrow market. This section deals with a detailed evaluation of these four strategies. Porter suggested that a strategy should be formulated after assessing the attractiveness of the industry or competitive environment, and the business’s capabilities relative to other competitors. Different strategies require differences in the functional coordination and different administrative requirements, which should be solved by different forms of internal organisation. Porter described three generic strategies: differentiation, cost leadership and focus. However, focus is the application of the first two strategies focused on an industry
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The Table: 6.8 shows the various requirements on different parameters for successful implementation of low cost and differentiation strategy.

Table: 6.8

<table>
<thead>
<tr>
<th>Important Variables by Generic Strategy</th>
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<tbody>
<tr>
<td><strong>Cost leadership</strong></td>
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<td>Factor Inputs</td>
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<td>Allied services</td>
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<td>Distribution</td>
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6.2(3.1.1) Differentiation Strategy

Marketers cannot achieve success in the present competitive business unless they hold some sort of competitive differential advantage over their rivals. A business with a pure differentiation strategy attempts to enhance the price component of the profit.
equation by offering customers something they perceive as unique and for which they are willing to pay a higher price. Differentiation requires that the firm create something, either a product or a service, that is recognised industrywide as being unique, thus permitting the firm to command higher than average prices. Differentiation usually requires incurring higher costs but, if successful, these incremental costs will be less than the incremental contribution attributable to the higher price. This strategy incorporates variables dealing principally with the business’s environment. The product and allied services must be designed to meet unique customer needs; distribution and delivery systems must be tailored to the changing requirements of the market; new technical features added to the product must anticipate and define customer needs.

6.2(3.1.1a) Sources of Differentiation

The sources and means for creating a differentiation that are truly unique, or are perceived to be unique, differ from industry to industry. In a particular industry also, due to variety of attributes valued by customers, there can also be several differentiation strategies. The aim of each firm is to differentiate its product from that of competitors along as many dimensions as possible. Bases of product differentiation have been described in two ways: conceptually (including product features, linkage between functions, timing location, product mix, links with other firms and reputation) and empirically (including customisation, product complexity, emphasis on customer marketing, channels of distribution, and level of service and support). However, in the end, product differentiation is limited only by environmental opportunities and creativity in exploiting those opportunities (Barney, 2002). Differentiation can be created at any point of the value chain and can be based on such attributes as unusual product or service features, rapid product innovation, product reliability and durability, after sales service, dealer network, brand image, etc. Also important are the activities aimed at enhancing customer’s competitiveness (through a timely supply of inputs, sharing of information, training of operators, holding key inventories on behalf of customers, etc), and the design of business
processes that facilitate value creation at customer end, up to the point of consumption and beyond (Das, 2000).

A firm needs to use the different sources of differentiation at different times to make this strategy meaningful to its customers. Customers’ attachment of importance to product attributes other than price is a necessary condition for a product differentiation strategy’s viability, but it is not a sufficient condition. In order for a product differentiation strategy to be viable, a firm must be able to build and sustain noticeable differences in its product offerings or in brand image, packaging, pre and post sales service, and financing arrangements. However, this can be done only under specific conditions. A differentiation strategy based on an intrinsically superior product depends on the firm’s ability to maintain those intrinsic differences in the face of competitor imitation. As the industry matures, this task becomes increasingly difficult.

Innovation can produce a product that is perceived by consumers to be intrinsically superior to the competitors’ offerings but product innovation probably cannot ensure sustainable differentiation, other bases for product differentiation must be found. In the past few years marketers have realised the importance of strong relationships with customers and have been using it for this purpose. Differentiation based on quality, reliability, and service is more durable because usually it is more difficult to sustain. A single act of imitation can eliminate the advantage an innovative product design provides for a firm, but quality and service can be sustained only by ongoing attention throughout the organisation.

While a firm may incur additional costs to create value or differentiation, it also needs to reduce or eliminate the costs in non-value adding activities. This is required to maintain a close parity with the competition in terms of cost with respect to activities that have no impact on creating differentiation.

6.2(3.1.1b) Conditions for Differentiation Strategy

In the opinion of Thompson and Stickland (1999) differentiation strategies work best in the markets where:
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a) There are many ways to differentiate the company’s offerings from that of the rivals and many buyers perceive these differences as having value.

b) Buyers’ needs and uses of the item or service are diverse.

c) Few rivals firms are following a similar differentiation approach.

d) Technological chance is fast paced and competition revolves around evolving the product features.

6.2(3.1.1c) Risks Associated with Differentiation Strategy

The differentiation strategy at times fails to bring the desired results because of the following risks associated with it:

a) Customers may not find the difference between the price charged by the firm pursuing differentiation strategy and that offered by the low cost producer to be worth the value created by the former.

b) Customers may be unwilling to pay for certain special features through which the firm is trying to create differentiation, since they may not need the same in the foreseeable future.

c) The perceived value may decline in the minds of the customers because of an increase in the level of awareness and exposure which leads to the realisation that the creation claimed by the firm as unique is available from other suppliers too.

d) To identify the sources of differentiation that are important for the customers and difficult for the competitors to copy is a difficult task.

e) The differentiation may involve costs that may inflate prices. Generally people prefer to purchase low priced products or services even though they have to forego some desirable features of the market offering.

f) The competitive advantage gained by a firm through cost leadership strategy may be so effective that it may not be disturbed by the particular differentiation.

g) Although differentiation may be noticeable, yet it does not result in any incremental value for the customers in a firm’s market offering.
A differentiator cannot ignore its cost position, because its premium prices will be nullified by a markedly inferior cost position. A differentiator thus aims at cost parity or proximity relative to its competitors, by reducing cost in all areas that do not affect differentiation (Porter, 1985). This implies that a cost leader that competes against a product differentiator must also be a product differentiator, and vice versa.

6.2(3.1.2) Cost Leadership Strategy
The cost leadership strategy aims to achieve the overall lowest cost structure in an industry. Under this strategy, a firm offers standard products with an acceptable quality to all the segments of customers at the lowest competitive price. This can be accomplished by having an efficient business system. A cost strategy requires attention to operational details, a willingness to replace obsolete equipment, the relentless substitution of capital for less efficient labor, and keeping overhead costs to a minimum. Cost leadership assumes that only one company can be the undisputed cost leader at a point of time. If this has not been achieved and a number of firms are trying to get to that position, there will be fierce rivalry leading to adverse profitability and altered industry structure in the long run.

6.2(3.1.2a) Sources of Low Cost
There must be a consistent focus on driving costs lower than the competition. The ability to get the average industry price does not depend on the lowest cost but on the extent of differentiation that the firm’s products and services have with regard to quality and service parameters vis-à-vis the competition. The ability to create the value and manage the value chain efficiently will be crucial to achieve the twin tasks of cost minimisation and differentiation.

Economies that are independent of scale can provide the most durable basis for a cost leadership strategy. These can be grouped into three categories: access to raw materials, access to product or process technology, and access to distribution channels, but whether or not each of these economies can offer a firm foundation for cost leadership depends on external factors.
Price sensitivity is, at best, a necessary but not sufficient condition for cost leadership. Greater price sensitivity increases the advantage a cost leader has over other firms, but it is not sufficient to justify adopting a cost leadership strategy. There are external preconditions for a cost leadership strategy and customer price sensitivity is a minor consideration.

Cost leadership can occur only if the potential exists to create cost savings in ways other than through cutting back production. How these cost savings can be achieved will depend on the structure of the firm’s industry or on the structure of those firms that supply it or it supplies. When a cost strategy is employed, the relationships among functions, R&D, marketing, sales, and production are straightforward. The theme is simple. Production manufactures at low cost and the sales people sell based on price. Since the product competes on its cost/price position little coordination is required between production and sales activities.

Generally it is believed that the cost of producing or distributing a product or service decreases with an increase in accumulated experience of a firm in producing or distributing such a product or service.

6.2(3.1.2b) Conditions for Cost Leadership Strategy

Thompson and Strickland (1999) states that a low cost strategy work best when:

a) Price competition among rival sellers is especially vigorous.

b) The industry’s product is a standardised or readily available from other sellers.

c) There are few ways to achieve product differentiation, thereby making buyers very sensitive to price differences.

d) Most buyers use the product the same ways.

e) Buyers incur low switching costs.

f) Buyers are large and have significant power to bargain down prices.

Cost strategy assumes that only one firm can be the undisputed cost leader at a point of time. If this has not been achieved and a number of firms are trying to get to that position, there will be fierce rivalry leading to adverse profitability and altered industry structure in long run.
6.2(3.1.2c) Risks Associated with Cost Leadership Strategy

Many scholars believe that the cost leadership suffers from some inherent limitations which include:

a) Technological obsolescence may eliminate the advantage of being the traditional cost leader.

b) Sometimes excessive orientation towards driving down the cost makes the cost leader oblivious to the signals indicating either changes in technology and customer preferences or the competitor’s initiatives to transform a low cost, commodity business into branded and differentiated one through extensive value addition, thereby making low cost approach obsolete.

c) The competitor may imitate the various actions taken by the cost leader to reduce the cost. If it happens, the cost leader will be challenged to find ways to enhance value.

d) The model is based on the assumption that a firm would be in a position to reduce the cost of production, a prerequisite for emerging lowest cost producer in the industry, over a passage of time as a result of experience.

e) Even a new entrant can achieve competitive advantage by resorting to “me too strategy” which is based on the concept of imitation.

f) The strategy will become ineffective with the increase in overall cost of firm’s production inputs. Consequently, a firm finds it difficult to hold a cost advantage over a longer period of time in a rapidly changing environment.

g) Cost reduction becomes extremely difficult beyond a level of operation.

Overall cost leadership, although not neglecting quality, service and other areas, emphasises low cost relative to competitors.

Porter (1980)'s suggested that low average cost position can be a successful competitive strategy. Karnani (1984)'s raised questions with this suggestion. It is usually argued that one way to achieve a low average cost position is to exploit economies of scale, which implies that the firm in question has a high market share. A low cost position is likely to lead to a low differentiation position; conversely, a highly differentiated position is likely to lead to a high cost position. According to the
Karnani's (1984) model, the relationship between differentiation and average cost position is determined by the net result of two opposing forces. First, high differentiation leads to a high cost position independent of scale, which in turn leads to a high average cost position. Secondly, high differentiation leads to high competitive strength, which leads to high market share, which in turn leads to a low average cost position. Which of these two forces is stronger will depend on the specific situation. This model leads to the conclusion that high differentiation and low average cost are not necessarily incompatible.

Fig: 6.2

Iso-performance curves


Thus, competitive strength results from an appropriate combination of differentiation and cost position.

6.2(3.1.3) Cost Focus Strategy

Focus strategy as suggested by Porter (1985) is based on the choice of a narrow competitive scope within an industry. The firm that pursues a focus strategy
concentrates on one or at best, a few segments and develops a set of strategic initiatives tailored to such specific segments.

By pursuing this strategy, a firm decides to focus on a particular market segment and tries to achieve its objectives by emerging as the market leader in the niche market. Niches do not ‘exist’ but are ‘created’ by identifying the needs, wants and requirements that are being addressed poorly or not at all by the other firms, and developing and delivering goods or services to satisfy them. Segment structural attractiveness is a necessary condition because some segments in an industry are much less profitable than the others. This strategy aims to engage either cost leadership strategy or differentiation strategy to be a part or segment of the market.

The objective of the cost focus strategy is to lower the prices by controlling costs in a narrow market segment. The segment may be a group of customers, a geographical area, or a part of product or service line. Normally, the focuser does not possess a competitive advantage across the entire industry.

Since the cost of value activities as well as the most efficient value chain may differ for different segments, a firm that dedicates its efforts to a well chosen segment of an industry can lower its cost significantly

6.2(3.1.3a) Sources of Cost Focus

Focus strategies rest on differences among segments, either differences in the firm’s optimal value chain or the differences in the buyer value chain that lead to differing purchase criteria. If all the customers prefer a roughly similar product offering, a focus strategy is not viable. Thus, the viability of the focus strategy is tied directly to exogenous factors, including the heterogeneity of customer’s preferences. The essence of success of focuser lies in its ability to exploit the differences in the purchase and consumption characteristics of a select few target segments from the rest of the industry which is generally content with a standard and mass produced service.

Most of the improvements in relative cost position through focus usually stems from employing a different and tailored value chain to serve the target segment.
Cost focus strategy can be achieved by economies of scale; interrelationships with sister business units, if any; linkages (linkages create the opportunity to lower the total cost of the linked activities); proprietary learning and innovations. To be sustainable, cost advantage should be derived from a number of sources. This makes it difficult and expensive for competitors to replicate their cost position.

6.2(3.1.3b) Conditions for Focus Strategy

Focus strategy works best when (Thomas and Strickland 1999):

a) It is costly or difficult for multi segment competitors to meet the specialised needs of the target segment.

b) No other rival is attempting to specialise in the same market segment.

c) A firm does not have the resources or capabilities to go after a bigger piece of the total market.

d) The industry has many different niches and segments, allowing a focuser to pick an attractive niche suited to its resource strengths and capabilities.

According to Porter, a firm could take either a focused or broad approach to either product differentiation or cost leadership.

6.2(3.1.3c) Risks Associated with Focus Strategy

By focusing on a narrow target, a firm may fail to enjoy the benefits of economy of scale that generally happens in the case of a broad target.

a) A competitor which is pursuing a focus strategy may out focus the firm by defining the segments more narrowly, that is, when a sub segment is created in the segment.

b) The best broad scope player, who had ignored the niche previously, may decide to enter the segment if it finds that there may be opportunity to make a superior profit in that narrow segment.

c) With changing technology and other shifts, the needs of the customers belonging to the focused segment may become more standardised, as a result of which the advantages of the niche player may either get reduced or even disappear.
The above discussion of competitive strategies makes clear that these generic strategies cannot be followed blindly. These should be adopted keeping in view the external and internal factors. The Table: 6.9 summarises these external factors and also gives out the appropriate generic strategy to be followed in each situation.

**Table: 6.9**

**Summary of Links between External Factors and the Viability of Generic Strategies**

<table>
<thead>
<tr>
<th>Generic Strategy</th>
<th>Conditions</th>
</tr>
</thead>
<tbody>
<tr>
<td>A Focused Strategy will be viable only:</td>
<td>If customer's needs within the given product class are heterogeneous and If synergies between the value chains associated with the product offerings targeted at each indicated market segment are zero or negative.</td>
</tr>
<tr>
<td>A Cost Leadership Strategy will be viable only:</td>
<td>If high transaction costs or differentials in the cost of producing inputs exist, and these can be overcome through vertical integration or some other means of achieving preferential access and/or If the state of development of the process technologies employed in the value chain indicates that significant innovations can still be realized and/or If the process technologies employed in the value chain are sufficiently complex to permit significant cost improvements to be realized from learning effects and/or If the optimal scale for some significant part of the value chain exceeds one-half of the size of the market.</td>
</tr>
<tr>
<td>A Product Differentiation Strategy will be viable only:</td>
<td>If customers attach weight to product attributes other than price when making purchase decisions and/or If the state of development of product technologies indicates that significant product innovations can still be realized and/or If the process technologies employed in the value chain are sufficiently complex to permit significant quality or service differentials between competitors' product offerings to be maintained.</td>
</tr>
</tbody>
</table>


### 6.2(3.1.4) Stuck in the Middle.

Porter advocates that a firm not only needs to possess complete knowledge about the events and happenings in the industry but also requires to choose among the above mentioned three generic strategies in order to ensure a better marketing performance.
Failing to do so, a firm might be caught somewhere in the middle technically referred to as “stuck in the middle.” It is not exception to find a few firms within each industry which are stuck in the middle. These companies neither have cost leadership, nor are they able to differentiate their products and services. Therefore, these companies are susceptible to onslaughts by cost leaders, differentiators, as well as, niche players. A firm gets “stuck in the middle” when it cannot decide how to compete and is unable to meet the requirements of the generic strategy which it has adopted.

Most of the empirical studies on generic strategies show that firms that successfully pursue generic strategies outperform their competitors. Extending the logic, by combining both generic strategies successfully, a firm should be able to outcompete rivals that pursue only one strategy, but it is not so.

**6.2(3.1.4a) Reasons for being “Stuck in the Middle”**

Two assumptions lie behind the argument that firms in the middle perform poorly. These are:

a) Firstly, because the resources and capabilities of a firm are not dedicated to achieving either high value or low cost, the firm cannot compete effectively on value with differentiator or in cost with the cost leader. So when the company tries to pursue both, higher value and lower cost at the same time, it suffers. The problem of the firm in the middle is thus one of strategy execution.

b) Second assumption is that the customer base of the firm in the middle is not large enough to allow it to improve its abilities, given competition with the other firms. That is, customers gravitate towards the higher value of the differentiator and are wiling to pay the prices it charges, or they buy the lower value product at cost leader’s lower price. There is little market opportunity for a firm in the middle to improve its position.

Therefore, in the course of implementing its chosen generic strategy, the firm is continuously making decisions on the type, timing, quantity, and pace of its resource deployment in order to build assets such as cost leadership, a technology base, a distribution network or a
reputation for quality or reliability that, through their impact on a firm’s competitive advantage, will allow it to reach its objectives. In selecting such assets the firm needs to consider both the internal and the external factors. Further, the firm needs to identify the relevant bases for competition in its markets: if price is not a basis for competition then investing in cost leadership to become a price leader may not be as important as an alternate investment, say, in R&D, that may lead to establishing the company’s technological leadership. Porter recognised that the strategies that companies use to compete in an industry can differ in a wide variety of ways, and he proposed a number of “strategic dimensions” that should capture the possible differences among the strategic options of companies in a given industry. These dimensions are comprised of competitive methods that include brand identification, channel selection, technological leadership, cost position, service, and leverage, among others (Porter, 1980). These competitive methods provide a means for characterising the strategies of competitors within an industry.

6.2(4.1) Recommendation of suitable strategies for insurance companies to enhance their market share.

This research study began with identifying the generic strategies being used by the top five life insurance companies in India. In the next step, a comparison was done between the strategies of private life insurance companies and the public life insurance company, i.e. LIC of India. After the comparison, a critical evaluation of the strategies being used by the companies was done and the next objective in this series is to suggest the suitable strategies for these insurance companies which may help them to improve their market shares.

The concept of product life cycle states that a product goes through four different stages since its birth to decline. These stages are; introduction, growth, maturity and decline. The introduction stage is a period of slow growth as the product is introduced in the market. Profits are non existent because of the heavy expenses incurred with the product innovation. The growth stage is the period of rapid market acceptance and substantial product improvement. In maturity, there is a slow down in the sales growth because the product has achieved acceptance by most potential buyers. Profits stabilise or decline because of the
increased competition. When the product is in decline stage, the sales show a downward drifts and profits erode (Kotler, 2003).

The market also experiences these stages. A company’s positioning and differentiation strategy must change as the product, market, and competitors change over time (Kotler, 2003). In the introduction stage, product technology advances rapidly. There is no dominant product technology, and rival technologies compete for attention. The competitive process involves the selection of the more successful from the less successful approaches, and typically a dominant technology and design configuration emerges. Emerging industries are characterised by a wide variety of product type that reflect the diversity of technologies and designs and lack of consensus over customer requirements. The essential characteristics of an emerging industry from the viewpoint of formulating strategy, is that there are no rules of the game. The absence of rules is both, a risk and a source of opportunity. There are a wide variety of strategic approaches often being tried by industry participants. No “right” strategy has been clearly identified and different firms are trying the different approaches to product/market positioning, marketing, servicing and so on, as well as betting on different product configurations or production technologies.

Insurance industry in India is in nascent stage. It is going through the introduction stage, where the market is not developed; people have very less knowledge about insurance products, there is a lack of professionals in this field, it is suffering from high attrition rate of employees and products are not developed according to the needs of customers. In this stage most of the companies are following cost strategies to attract customers, as insurance awareness is less and people might not buy policies on the basis of differentiation. Based on the review of literature and analysis of data, the following strategies are recommended for the life insurance companies.

6.2(4.1)(a) Focus Strategy: Identify more Niches

There is a need to identify more niches as there is a large untapped insurable segment which has been ignored by life insurers and whose needs and requirements are not identical. From business point of view also, it is not productive to concentrate only on
one segment. A market is composed of different users and the corporate objectives focus on covering all the segments so that a sound product portfolio is designed, in which the services of present and future are blended optimally. Identifying a niche is about finding a distinct segment of consumer interest and then capitalising on it. Niche markets are core groups of people within a larger target audience who have similar occupational or lifestyle characteristics that can be targeted for excellent results. Such niches may be women’s life insurance, health insurance, superannuation insurance, child insurance etc.

Various research studies have identified that the women’s life insurance is not considered as important as men’s. In this research study also, as the Fig: 6.3 shows, the number of female respondents is very less (approximately 29 per cent) which reveals that this is an untapped segment. Out of total 210 respondents, only 61 were females. This strengthens the results of previous studies (Fitzgerald, 1987; Gandolfi and Miners, 1996; Saiababa et al, 2002) which states that in a household husband’s life is considered more important.

Fig: 6.3
Gender of Respondents

<table>
<thead>
<tr>
<th></th>
<th>Male</th>
<th>Female</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>149</td>
<td>61</td>
</tr>
</tbody>
</table>

255
Although companies like LIC and Bajaj Allianz have insurance policies specifically for women (LIC has Jeevan Bharti, Bajaj Allianz issues policies specifically for housewives and working women), they need to be marketed properly. Other companies should also think in the same direction. When there are so many players in the market it would be better to increase the size of the pie, rather than sharing the same pie.

Other segments need to be developed. In this study, Fig: 6.4 depicts that the maximum coverage is of life insurance policy (144), followed by retirement policy (35) and then health insurance policy (17). The companies should focus more on health segment. From this information, we can infer that health segment needs to be tapped. Although all the insurance companies have attractive plans for health insurance and they are advertising heavily also, but still not many people are buying these policies. Life insurance segment is the most sought after segment.

**Fig: 6.4**

*Types of Policies*

Health insurance has been targeted by almost all the insurance companies. This is the segment in which life insurance companies have to compete with general insurance companies also, as these companies are also issuing health insurance policies. From being a single product market, marketed by four non life insurers, now over 300
health insurance products are offered by over 30 insurance companies, both general and life (UNI, 2009). There is a huge potential in this segment, as the health insurance sector registered a growth of 31.56 per cent in premium at Rs. 6,874 crore in 2008-09 from Rs. 5,225 crore in previous fiscal. The premium of general insurers went up from Rs. 5,125 crore in fiscal year 2008 to Rs. 6,625 crore in fiscal year 2009, a growth of 29.27 per cent and the life insurers registered Rs. 249 crore health insurance premium in fiscal year 2009 as against Rs. 100 crore in fiscal year 2008. According to data provided by IRDA, there has been a growth of 21.92 per cent in health insurance premium of four state run general insurers; New India, National Insurance, United India Insurance, Oriental Insurance, from Rs. 3,13,650.85 lakh in fiscal year 2008 to 3,82,403.84 crore in fiscal year 2009 (UNI, 2009).

Other niches, e.g. pension market should be developed. As a result of disintegration of joint families, people nowadays want to secure their old age, therefore, they are also buying retirement plans. The Indian pension fund industry is tipped to have a bright future, with growing life expectancy and government pension reforms rendering India an eligible market for investors looking for pension businesses. India’s pension market is poised to grow 39 per cent year over year to 2013, according the Indian Pension Fund Market Forecast 2013 (RNCOS, 2009). Total pension and annuity funds of life insurers increased at a compound annual growth rate of around 46 per cent between 2003-04 and 2007-08, although the growth rate has slowed down in the past few years as a result of the decline in Life Insurance Corporation (LIC) pension business. At present, the LIC dominates the pension industry, the private life insurers should also exploit this niche vigorously.

As education is becoming very expensive Child Insurance is also an avenue which should be explored.

6.2(4.1)(b) Differentiation and Innovation

As per Porter, focusing on one generic strategy makes a company the market leader, but if all the companies are following that generic strategy then its advantage is lost. Same is the case with Indian life insurance sector. Out of the five life insurance
companies under study, most of these are following cost focus strategy namely, HDFC Life Insurance Company, Bajaj Life Insurance Company and SBI Life Insurance Company. In this segment, SBI Life Insurance Company has an advantage over others as it is using its parent company’s large distribution network to sell its policies. HDFC Life Insurance Company is the one whose position is deteriorating because of the competition. It should change its focus from cost focus strategy to differentiation strategy.

Instead of keeping on bleeding by cost focus, the companies should improve product quality and introduce new product features. The present products are not developed according to the needs of the customers. The insurance companies should undertake surveys to identify the needs of the present customers and the potential customers. Based on the results of these surveys, new products should be developed. Such products will be easy to sell as these would cater to the requirement of customers. The product development needs a new vision, a new approach and a new strategy. The insurance companies should assign due weightage to the development of services and schemes which cater to the changing needs and requirements of the people. In the insurance business, the mounting intensity of risks and uncertainties make it significant that the insurance organisations assign due weightage to the innovation of product strategy. The inclusion of new policies in the product portfolio keeping in mind the changing business conditions and the future scenario would help insurance organisations in many ways. Some of the key drivers that necessitate speedy and efficient introduction of new insurance products in the market are:

• Increased customer needs and expectations
• Demands from distribution channels
• Increased competition in the insurance marketplace
• Heightened regulatory scrutiny and compliance requirements

It is a common knowledge that the demand for new and creative insurance products is only going to intensify in the coming years; but the ability of insurance companies to cost effectively respond is diminishing as most of the companies are already running in losses.
6.2(4.1)(c) Improve Quality of Human Resources

In service encounters, in which interactions between the employee and customer often become part of the service itself in the customer's mind, customer perceptions of the employee can have a strong impact on perceived service quality and satisfaction. For this reason, it is important for firms to select the right employees for customer contact jobs (Mohr and Henson, 1996). Insurance is 'people centric' in character. Insurers deal with people who are their policyholders, beneficiaries, claimants, intermediaries and even employees. Insurance being 'people business' requires soft skills such as, teamwork, communication, client relationship management, customer services, business awareness, problem solving and achievement orientation skills. Employee satisfaction and customer satisfaction are clearly related. If a company wants to satisfy its customer, employee satisfaction is critical. The public face of an insurance company is its agent. It is quite challenging for an insurance company to differentiate itself from other insurance companies selling similar products. Their only hope of competitive advantage, therefore, is from the service level, the way the things are done. Outreville (1996) also pointed out that skilled human capital is a source of competitive advantage because industries in developing countries suffer from a major handicap of shortage of skilled personnel. Insurance companies should give importance to training activities that enhance job involvement and professional commitment (McRoy et al, 1993). The agents who have formal training and education are more successful producer than other agents (Lyles, 1964). Insurance business rests on the professional excellence of agents and because of their face to face communication with the customers they get a feedback. This feedback should play a decisive role in innovation of the products. The insurance professionals in general and the agents in particular bear the responsibility of identifying the emerging new trends and to develop the marketing resources accordingly.

Marketing insurance policies is an increasingly tough job, and agents’ skills ought to be honed along professional lines for the benefit of the insurer, the insured and the agents themselves. The insurers should have manpower strategies designed so that the right people equipped with the right capabilities are in place to effectively execute the business strategy. They must increase the energy and focus with which they address
the workforce capabilities necessary to succeed. Achieving high performance in insurance today requires a highly engaged, skilled and productive workforce, the right people, with the right skills, doing the right things to contribute to the long term success of the business.

6.2(4.1)(d) Improve Distribution Network

As said earlier, in the competitive market where product offerings are more or less same, the companies can excel only if they provide better services through their distribution network and well trained agents. Better distribution channels and skilled workforce can be a source of competitive advantage in insurance sector and firms seek sales growth by improving their distribution channels (Peterson et al, 1972)\textsuperscript{19}. Distribution plays a very vital role in the success of a product; and in the domain of insurance, particularly in a nascent market; the distributor holds the key for the company to emerge as successful in the market. The vitalness of the distributor’s role is that he is the first line representative and assumes a huge responsibility as the preliminary underwriter of the insurer. In most cases, he or she is directly in contact with the prospect for several years and as such, is given to know the first hand information. A proper use of this knowledge would obviate the problem of asymmetry of information to a great extent.

Intermediation has been a key element of the insurance business world over. Unlike the other financial instruments, insurance, as a concept, had always to be explained to the prospect universally. Historically, in the Indian insurance domain, the agent has been the predominant and in some cases, the exclusive distributor. The intermediation process prior to opening of the sector was wedded to tied agency channel mainly due to the structure followed by LIC and the four PSU non life companies. In the liberalised scenario, several other dynamic channels of distribution have come into play. This is primarily to ensure that the reach is increased, the customer base is enlarged, to have an adequate channel mix for different segments of market and to ultimately ensure growth in volumes. While the agent as a distributor continues to play a significant role, the other channels have been making rapid strides.

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The new players who have come into the country, through their foreign partners have brought in new technology, new products and at the same time have ushered in multiple distribution channels, in order to have economics of scale. Besides the tied agency channel, the distribution channel matrix comprises of other entities like corporate gents, brokers, bancassurance channel, direct marketing, tele marketing, net marketing, worksite marketing etc. Other than the tied agency channel, all the other constituents go by the generic name of Alternate (Alternative) Distribution Channels. Today the customer has multiplicity of choices of service providers; of products and services; distribution channels etc. As a sequel to this, the distribution channels have to be customer focused as compared to product focused; keeping in mind the long term results as against the low hanging fruits; migrating from a push orientation to a pull orientation and move to strategy driven activities vis-à-vis transaction driven activities. In the life insurance domain, with the huge success of the market related products, the distributor has got to be updated with the latest developments so that there is a proper match between the needs and service delivery.

Besides giving training to the existing distribution channels, new avenues for distribution should be developed.

The choice of a strategy of a company rests on the external and internal environmental conditions. Before choosing a strategy, the purpose of the organisation should be defined, its resources and capabilities should be considered, the competitors and market opportunities and threats should be identified. The present market scenario has changed considerably, it is also forcing the companies to become more open and accountable to their stakeholders on one hand, and to the society at large, on the other. The strategies should be updated from time to time to commensurate with the changing business environment. Companies are failing to recognise that market is changing every few years resulting in an organisation’s winning strategy of the past becoming today’s losing strategy. The existing insurance companies can not be satisfied with concentrating on the consolidation of their existing markets, but have to achieve further growth and penetration. They must, therefore, concentrate on strengthening the existing points of service, devising new channels of distribution, direct contact with their ultimate customers, and front line employee empowerment. The newcomers, on the other
Results of the Study

hand, should give priority to tapping the market left unexploited by the large companies. Therefore, in order to succeed in the market place; organisations would need strong teamwork with customers, intermediaries and joint venture partners and also between managers and employees within the company itself. Any attempt to categorise the complex phenomenon of business strategy into a limited number of strategy types will necessarily involve simplification. It is necessary to concentrate on certain aspects of business’s strategic posture while ignoring others. Although the present research study concerns with generic strategies only, few other vital strategies are also suggested. The above mentioned strategies are suggested in the light of present pressures of competition, but it may be worthwhile to note that before following these strategies, the internal and external environment of the business should be considered.

6.2(5.1) Identification of the factors affecting customers’ satisfaction

The importance of customer satisfaction cannot be overstated. Without the customers, the service firm has no reason to exist. Every service business needs to proactively define and measure the customer satisfaction. The companies who command high customer satisfaction ratings also seem to have the ability to insulate themselves from competitive pressures, particularly the price competition. The last objective of this research study is to identify those factors which affect the customers’ satisfaction with regard to the service provided by their respective insurance companies. The service by insurance company includes; the feature of the policy, price of the policy, premium payment conditions, maturity benefits, the efficiency of agent with whom the customer is dealing, fast issuance of receipt etc. To identify the factors affecting satisfaction level of customers the exploratory factor analysis was used. With a sample size of 210, the factor analysis was performed on the 16 explanatory variables. As a result of this analysis five factors were identified namely, satisfaction with service, satisfaction with policy, continuous agent client interaction, price sensitivity, indifference towards policy and procedure. A brief explanation of these factors is given below.

6.2(5.1)(a) Satisfaction with Service

In the case of life insurance, the only experience to create a positive perception about the company, is the continued attention and concern shown to the customer which
Results of the Study

would reassure him that the promise he believed in while making the purchase, was not misplaced. Satisfaction with service is the primary factor which affects the satisfaction of the customers. Those companies which provide efficient services to their customers will reap the benefits of having satisfied customers. Efficiency in service is not merely in the fast payment of claims. The speed of service and the helpfulness of the response to needs during the entire duration of the contract, from the initial stage of proposal to the stage of claims processing, are all equally important.

Another factor of efficiency is the cost of delivery of services. This is very important to keep the premium under control. Every step in cutting the cost of delivering the service will be a step in improving the efficiency of the service. Innovation in alternative sales channels and adding insurance as a supplementary of some other service already being provided to the target section of the society, are means of possible reduction of distribution costs. Office administration costs also have to be kept under strict control. Insurance should not become a con game wherein the intermediaries end up growing rich at the cost of both the insurer and the insured. It is unrealistic to expect corporate enterprises to operate at a loss. They will soon go out of existence. So, the right to make a reasonable profit in the activity of providing the service should be fully recognised by the society. At the same time, insurers must understand that they are in a service business and their conduct should be consistent with their role in the society. The quality of service can be measured by its appropriateness to the need, the efficiency with which the service is provided and the reasonableness of its pricing.

6.2(5.1)(b) Satisfaction with Policy

Another factor for overall customer satisfaction is the satisfaction with the insurance policy. Insurance is nearly a “pure” service including little of the nature of goods (Zimmerman, 1999)20. A policy can be best understood as a bundle of benefits, as it is intangible. Insurance being an intangible product, the “technical quality of the service” depends upon its reliability; that the insured knows or is educated enough to know, when it would work for him and when it would not. The “functional quality of
service” is situational and is perceived not only on what is delivered as service but also how and who delivers it. This functional quality of service is subjective and depends on the individual customer’s expectations. Both these variables, the technical and functional qualities of service, are managed by the customer philosophy of the service provider.

In the Indian insurance domain, one feature that has been very conspicuous is that the insurance products have to be sold to the client, if not imposed on them. Apart from low levels of awareness, one reason that has been paraded for such a phenomenon is that the products are not very appealing. The products should be devised in such a way so as to meet the requirements of a large section of the people. No effort should be spared in making use of the available database in order that products are devised on sound principles; and can sustain themselves in the long run. Although the introduction of various riders has ensured that there is a great deal of customisation leading to the availability of different combinations for the policyholder. To suit the requirements of the customers, the products should be either redesigned, improved upon, or in exceptional cases, even withdrawn.

6.2(5.1)(c) Continuous Agent Client Interaction

The continuous agent client interaction factor can be interpreted as there should be a constant communication between a customer and the agent from whom the customer bought the policy. Though experimentation has been going on in the field of insurance intermediation, the importance of agent can not be undermined. The increase in the range of products makes the task of selecting that one product which meets one’s requirements so difficult that the dependence on advice from a professional has become essential. Simultaneously, the pressure is on the agent to acquire skills aimed at identifying the requirements of the client and suggest a policy that meets his requirements in full. The agent has to virtually transform himself from a salesperson to a financial planner. The insurance agent, by his very nature and the circumstances of his work, is a self motivated, independent operator. He needs to be equipped with the best of training and knowledge and backed by the companies’ commitment to strengthen the marketing channel and make it a credible, stable and
growing source of business. It is only an enlightened and knowledgeable agency force that can play the crucial role of reaching the full value of insurance to its end user, and in the process, ensure stable and growing business to the industry.

One of the grievances of the majority of the customers is that after selling the insurance policy, the agent disappears. Therefore, a frequent interaction between the agent and the client should be encouraged. In some cases, the agent leaves the business which leaves a client mid way. In order to avoid this the Insurance Regulatory and Development Authority of India issued a circular on September 7, 2009 stipulating that every insurer should enter into an agreement with an agent or a corporate agent for not less than three years. The circular also states that the insurer should also identify officials for future servicing of these policies before the agent leaves the company (Jain, 2009).

6.2(5.1)(d) Price Sensitivity

The fourth factor which affects the customer satisfaction is the price of the product. The customers are very sensitive towards the price. Pricing a product appropriately is very essential in ensuring that it proves successful in the long run. When it comes to a tangible product, the variables that go into producing the product are all there for the manufacturer to consider; and loading a certain percentage for his profit, he can decide the price. In a service like insurance, however, there are several factors that should be taken into account while pricing a product; and when these ingredients are themselves undergoing a constant change, to price a product properly becomes a daunting task. First and foremost; in pricing, insurers are guided by the basic components of covering the total cost of claims likely to be paid, the concept of natural premium in life insurance; and pure premium in non life insurance, but it must be ensured that the data that provides the information to the insurers in arriving at the natural or the pure premium is reliable and up to date. Some aspects where the efficiency of the insurer can play a role are the management of investments and expenses. In a competitive regime, however, it is an accepted fact that the premium charged is objective; otherwise, the product would not stand the rigours of competition. With the huge success of unit linked insurance policies, of
late, the efficiency of the insurers in the area of investments also assumes great importance. An insurer’s acumen would certainly matter a great deal in pricing the products, particularly in such a volatile interest rate scenario. In life insurance, mortality which forms the basis for arriving at the natural premium has to be near identical for all the players, for obvious reasons. This would place a lot of importance on the other factors that go into deciding the premium viz. management of expenses and investment income.

The low penetration levels of insurance; and the sense of compulsion that is attached to purchase of insurance makes the problem all the more intriguing in arriving at the right price.

6.2(5.1)(e) Indifference towards Policy and Procedures

The last factor which affects the customer satisfaction is the indifferent attitude of the customers towards the policy and the procedure. This means that the customer completely relies on the agent/distribution channel for their insurance policies. Since the awareness level is low and the wording of the insurance contract is complex, most of the people believe whatever the agent tells them. So this factor is related with the efficacy of the agent. If a customer is not required to go through the complicated process of understanding the technical terminology of the contract and he/she gets a good policy, he/she will be more satisfied.

6.2(5.2) Identification of Most Influential Determinant of Customer Satisfaction

Multiple regression analysis was used to identify the relation between the customer satisfaction and the five extracted factors. The results show that there is positive relationship between the dependent and the independent variables i.e. if satisfaction with policy increases, the overall customer satisfaction increases and if satisfaction with service increases, the overall customer satisfaction increases and so on. The only factor which is not significant is the price sensitivity. This means that customer satisfaction does not depend on this factor. This result can be interpreted as while customer may be price sensitive at the time of buying
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of policy, but once the policy is bought high or low price related to the policy has no affect on the overall customer satisfaction.

Satisfaction with service is the most important determinant affecting the overall customer satisfaction. A good service leads to the overall customer satisfaction. Satisfaction with policy is the second most important source of satisfaction. Indifference towards policy and procedure and continuous agent client interaction are also significant but their effect is very low as shown by low beta scores. As stated by various researchers, the results of this study also proves that, in the present competitive environment where policies of all the companies are same, the only thing that can make a difference is the way in which a customer is served (McDougal and Levesque, 2000). The result of this study shows service quality as the most important factor and satisfaction with the product as second one, Krishnan et al (1999) give out that the satisfaction with the product is the primary driver while service is the second one. An insurance company’s ability to attract and retain a new customer is a function of not only what it offers but also how it serves its existing customers.

6.3) SUMMARY

Insurance is a service industry. Its success can be best measured by the quality of service it provides. The opening up of the market has certainly ensured that the competitive nature of business has improved the efficiency levels in the customer service. In the case of service organisations, while there cannot be a strict interpretation of these efficiency levels considering the subjective factor; the service that is rendered or expected to be rendered could still be a major differentiating factor that would decide the customer orientation of the entity. Today the relationship with the customer begins much before the sale itself. It starts from training the distributors and employees to focus on customer’s needs. It starts with setting in place a structure that will ensure proper sale and after sale services. It starts with ensuring that prospective customers receive all relevant information about the products and the policies in a simple, transparent manner. The emphasis on the customer satisfaction should be on every step of the value chain. Organisations which have superior service quality are market leaders in terms of sales and long term customer loyalty. The companies competing in similar market niches should monitor both the practice of their competitors and
their own behavior in order to attract and retain their customers. Customer satisfaction is a key component of competitive strategies and keeping the customers happy is critical to long term business success. The companies which can fashion their strategies to satisfy customers will be the winners in the long run. Following one generic strategy blindly without considering environment and customer’s needs will not make companies successful.
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