CHAPTER 1: INTRODUCTION

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Chapter Overview

This chapter starts with the general introduction to the study with emphasis on the importance of building closer relationship with customers for better returns to insurance companies. The chapter also discusses the background for research in Customer Relationship Management (CRM) practices for public and private insurance companies. It talks about the various dimensions of the research problem. This chapter states the broad and specific research objectives and finally elaborates the research framework.

1.1 Introduction

Companies worldwide are realizing the increasing importance of CRM in insurance industry and the trend is catching up in India with the opening up of the insurance sector and from the market attractiveness perspective (Abell & Hammond, 1979). The market appears to be attractive from market, economic, technical, and competitive factors (Pant, 2000; UN, 2001). With regulatory environment changing favorably, it would be interesting to understand the readiness and attractiveness of the market from the perspective of the social acceptance and human resources acceptance (Brenner, 2000).

CRM takes a comprehensive view of customers, maximizes customer relationship and profitability for insurance companies (Gopalakrishna, 2008). CRM is an ongoing process, which aims at retaining current customers by creating long lasting, fruitful relations with them and gaining customers utilizing positive referrals (Chatterjee & Prasad, 2001). Over the course of the past decade, marketers have embraced the power of technology-enabled services, delivered through electronic channels, to facilitate this process of customer relationship management (McKenna, 1995; Grant & Schlesinger, 1995; Peters, 1997; Han, 1997; Winer, 2001; Mulligan & Gordon, 2002).

Difficult times lie ahead for insurance companies specializing in personal lines. Fearing an imminent recession, many insurers are focusing more than ever on the
search for profits and, to this end, spending millions of pounds on (CRM) systems
(Van Delm, 2004). An insurance CRM strategy can be implemented through data
warehousing and mining, interactive web sites, call centers, hand held devices and
other business intelligence systems that enable a company to better know and
service its customers and in turn win their long-term loyalty (Sodano, 2000).
Successful CRM focuses on understanding the needs and desires of the customer
and is achieved by placing these needs at the heart of the business by integrating
them with organization’s strategy, people, technology and business processes
(Neelima & Hitesh, 2004). CRM is a way of automating the front office functions of
sales, marketing and customer service (Sahay et al., 2001). An Executive survey on
CRM Market in India, (Icicle, 2006) revealed that Indian CRM market can be
segmented into the market for hardware, software and services and Banking,
Insurance and financial services are the sectors that shall benefit most from CRM
Practices and technology.

The onset of CRM has led to the traditional insurance firms resorting to online
transactions (Economist, 2000). Worldwide it is felt that there is a need to educate
the prospective buyers about the benefits of insurance and a need for hard selling the
products (Woods & Mitchel, 1999). In a climate of escalating competitive intensity,
the establishment and maintenance of long-term customer relationships has been
increasingly acknowledged for its role in heightening profitability by enhancing the
effectiveness of interacting with key customers (Mohammed & Fisher, 2001;
Jaworski & Cahill, 2002). Although it could be argued that making efforts to keep a
clientele loyal to the firm would be much more costly for the firm, in fact relational
practices improve the productivity of marketing (Sheth & Parvatiyar, 1995).
Empirical studies have shown that keeping a customer and therefore starting a
continued relationship can be up to ten times cheaper than attracting a new one
(Heskett et al., 1990). So efforts and resources should be aimed at the retention of
customers attempting to minimize their migration.

Over half the projects on which insurance companies have embarked fail because
they are forgetting the real point of the exercise, the customer (Gartner, 2005).
Technological issues are distracting insurance companies, losing sight of the
ultimate purpose of CRM systems, and neglecting the power of such systems in
analyzing data and providing critical marketing intelligence (Muthukumar, 2005)
CRM enables a company to communicate with its customers in a completely new way by integrating every point of contact, including intermediaries, staff and third parties. This, in turn, changes the behavior of the whole company from top to bottom (Winer, 2001). However, insurers believe it will also change the way customers behave and the change in their behavior will result in higher retention rates, more up and cross-selling and greater customer loyalty. Thus, an insurance company with a CRM system should, theoretically at least, make bigger profits (Crosscurrents, 2002).

Public sector insurance companies are turning cautiously towards CRM systems and facing different challenges. They are increasingly integrating CRM software into their websites for a multitude of reasons that ultimately increase efficiency and customer service (Hewson et al., 2003). The benefits of increased insight into customer needs, enhanced resource decision making with objective data, improved communication with citizens through proactive FAQs and outbound email, and increased citizen access to city hall are all hallmarks of this paradigm shift toward use of web-hosted CRM software (Crook et al., 2003).

In the private sector, competitive pressures and the demand for shareholder returns lead to a focus on optimizing customer value often for short-term profits. The level of service given to each customer is sometimes seen to be based upon his or her current or perceived future value to the organization (Miles, 2004). This often means that CRM is used by some organizations to ensure that high value customers get a high level of service, while as many transactions as possible, are automated, when it comes to low value customers (Bohl, 2004).

While it is clear that there are significant differences in the CRM issues and environments faced by the public and private sectors, and that businesses should have an easier time in applying CRM systems, the underlying strategic value for public sector is clear that CRM Practices are the best solution for achieving process and cost objectives (Schimth, 2004). Although there are material differences in public and private sector use of CRM strategy, they share at least one glaring similarity. They both have much to gain from proven CRM software technology (Sonig, 2001).
1.2 Background

With the entry of private players into the sector, the insurance landscape is witnessing a revolution. The bottom-line for the future of competition is the quality of interaction between the customer and insurer. Thus building customer-centric enterprises is crucial for long-term success of the insurance industry (Brandon, 2000). Relationship Marketing is the key to success in the present era and only those organizations can succeed who have been able to build a base of their loyal customers, as they advocate the company’s products. Smart CRM solutions should automatically make intuitive insurance connections and allow non-intuitive but relevant insured connections to be created (Baldwin, 2000).

After the recent de-regulation of the insurance industry, new opportunities have opened up for CRM in Indian insurance market. CRM can be introduced in various stages of the insurance value chain (Raghunath, 2003). Ins-web Corporation, provider of online insurance services, has introduced a business model, which changes from referring leads to traditional brokers to selling insurance policies regularly (Insurance & Technology, 1999). The new CRM and e-commerce solution for the insurance industry announced by Sybase, Inc. and Data Executives International includes a web based application environment, electronic ordering and interpretation of results, under writing case management and data warehousing to support CRM (Trembly, 2000a; 2000b).

Frost & Sullivan’s findings suggest that India is the fastest-growing market for contact centre systems in the Asia-Pacific (APAC), with a projected CAGR of 19.5 percent. According to IDC (International Data Corporation), the CRM market will touch $11 billion by 2008, marching at a CAGR of 8.9 percent in the 2004-2008 periods. The market for Customer Interaction Management is currently estimated at $400 million, and predicted to grow to nearly $1 billion by 2008 (Gartner, 2008).

Insurers face challenges as their markets are becoming increasingly dispersed and as global competitive barriers are vanishing. Many insurers are undergoing an organizational evolution to meet market demands and financial performance expectations (Rangachary, 2001). These demands and expectations include adopting a customer focus, supporting seamless policy issuance and claims processing, enabling operations through the Internet, focusing on process efficiency, and
reducing operation costs (Gupta, 1999). Many of these tasks will be challenging and will require that the insurers have efficient and scalable back office systems to support these initiatives. Infrastructure considerations such as performance, capacity, scalability and reliability are increasingly important to a company's ability to deliver its business strategies. Insurance companies are required to maintain historical information for business or regulatory requirements (Bhandari, 2001).

Thoughtful public sector executives in the insurance sector have continued to increase their focus on customer service and their constituent relationships, and are examining and adopting the Customer Relationship Management (CRM) software systems that have been proven so successful in the private sector (Johri, 2000). Having retooled the technology to address service delivery in the public sector and having renamed the moniker to “Constituent” Relationship Management (CRM), software manufacturers promotes building a “single customer view” in order to achieve a “customer-centric” agency. That is certainly worthwhile and if not idealistic, it is surely a public service goal, but while there are similarities in providing customer service between the public and private insurance sectors, there are also important differences (Andy, 2002).

Most CRM initiatives have been in the private sector where a working definition of CRM would be “to maximize the value of customers to the organization by efficient acquisition, retention and penetration of customers”. CRM in the public sector is a relatively recent phenomenon. Here, the definition of CRM is usually “to improve levels of services to citizens whilst optimizing cost to serve” (Hewson et al., 2003).

Considering the public sector, improving the relationship with its customers has been a goal of the public sector. The public administration is often over looked in the classical references to the relationship between customers and companies. This relationship exactly is of greater difference in the private sector. It plays a vital role in how the public sector exerts its power within society. Administrative practices and capabilities are often subsumed within the general discussions of public sector and its obligations to customers.

The most salient similarities and differences among Public and Private CRM Practices can be compared with reference to factors like CRM goals, principles and
technology, value propositions, customer base and customer communication. technology and implementation and CRM Benefits.

1.3 The Problem

CRM in insurance sector is of four levels. This include, Full service suite of product vendors, vendors that provide some but not all CRM applications, ERP and e-CRM Call centre and Internet products (Trembly, 2000a; 2000b). In the private sector, competitive pressure and the demand for shareholder returns lead to a focus on optimizing customer value often for short-term profits. In the public sector, the pressures are different, and usually much more complex, for several different reasons like customer expectations, rising demand, need for cost reduction, fraud and need for increased services (Hewson, 2003).

There exist other bottlenecks like audience selection. Like private sector organizations, most public sector ones cannot choose the people they serve. Public sector organizations are often poorly coordinated across departments and geographies, internally and with each other (Porter, 2001). There is also a resource problem. The public sector has rarely developed resources to design, build and optimize CRM. Public sector organizations are starting to understand that CRM philosophy involves not just technology but also changes to the proposition, the way service is delivered, integration of access and delivery channels, improved data, different measurement systems and a new way of managing people (Johri, 2000). Lower levels of pay, lower caliber managers, low status or job esteem and a cost minimization culture have created a public sector culture that gives a low priority to customers (Ansari, 2000).

Public and private sector organizations often start from similar points e.g. customer complaints, patchy direct marketing, variable customer service or uncoordinated e-business or e-government projects. While e-government does not equal CRM, it is similar to the many early e-business initiatives in the private sector that are now being integrated into CRM (Economist, 2002). One of the reasons for CRM project failure in the private sector is the lack of focus at what needs to be achieved from CRM, at a macro, programmed level, and at a more micro functional or activity level (Insurance & Technology, 2003).
Public insurance companies have embraced the fundamental principles of CRM but are struggling to get the building blocks like customer insights, customer offerings, customer interactions, organization performance and networks in place. The majorities of public and private insurance companies are focusing largely on the technological aspects of CRM and is struggling to reap the expected benefits (Crook et al., 2003).

While insurance companies have visions for the service models they would like to adopt, they lack the management and operational skills and experience to be able to do so alone. Many insurance firms now recognize the value of marketing to drive take-up of channels and services. However, the majority of current marketing efforts are neither targeted nor value driven and, as a result, have little impact (Insurance & Technology, 2002). While insurance firms understand the need to communicate to customers, their lack of using customer data to create effective segmentation means they are unable to target the right message to various customer groups (Smith et al., 2000).

In the public sector, there may be an appetite for e-government, but the tough challenges of CRM are not very appetizing for managers. As the research shows, technology pushes rarely work in CRM (COMCATE, 2007). Given the experience of the private sector, public sector organizations need to examine carefully how their suppliers can help them manage the wider organizational CRM issues discussed in this report. Public sector organizations should also learn from private sector leadership mistakes. The CRM journey should start with a senior management review of what CRM can and should do, the desired state, what the current state is and what gaps need to be filled (Alexander, 2005). This requires a comparison of CRM practices of both the sectors and the public sector can learn from private sector mistakes and avoid the technology-driven approach with which so many private sector companies failed.

Insurance companies today must focus on delivering the highest value to customers through better communication, faster delivery, and personalized products and services. Since a large percentage of customer interactions will occur on the internet rather than with employees (Bulterma, 2004), technology must adapt to the changing and unpredictable market. Organizations that implement CRM in addition to e-business applications will have the greatest gains (Lange, 1999). The future of CRM
is e-relationship management or e-CRM that will synchronize cross-channel relationships (Saunders, 1999). It is also envisioned as an “e-partnering ecosystem” with a complex network of partners that operate as an interconnected, completely spanning entire markets and industries (Creighton, 2000; Siebel, 2001).

Disappointedly, despite its increasingly acknowledged importance, little research has been focused on the proper implementation of the CRM concept. Scattered research efforts have been observed in the realm of maintaining a deep customer focus (Vandermervle, 2004), re-engineering the organizational structure (Ryals & Knox, 2001), and managing knowledge by leveraging the use of information technology (Stefanou et al., 2003).

CRM technology & implementations and the changing effect of the Internet offer abundant research opportunities on CRM practices in the insurance sector. Research in these areas will contribute to building thriving customer relationships and long-term corporate survival. Years of academically researched topics of relationship marketing and customer relationship management are now practical and cost-effective to implement due to emerging technology. It is time to put academic theories to practice.

1.4. Research Objectives

Broad Objectives

The study attempts to empirically explore the following broad objectives:

To study the dimensions of Customer Relationship Management practices in the Public and Private Sector insurance companies with reference to main CRM comparison variables.

Specific Objectives

Category I: Developing a valid and reliable instrument for exploring variables of interest vis-à-vis CRM practices in the context of public and private sector insurance industry

The CRM comparison variables are the factors which are responsible for proper CRM implementation initiatives in the insurance sector. These dimensions were
identified with the help of literature survey and focus group discussions with customers of the banks and pilot survey among practitioners of the banks.

**Category II: To identify the factors related to CRM initiatives and their importance**

It is necessary to identify CRM initiative related factors to enable their importance in relationship building in the insurance sector. Factor analysis was employed to identify key CRM initiative factors separately for both the sectors.

**Category III: Explore the differences in CRM initiatives in the public and private sector insurance companies**

Exploring the differences in CRM practices among public and private sector will provide important inputs into the CRM implementation issues in the public and private insurance sector. Independent samples t test was employed for both the sectors separately to ascertain these differences.

The overall purpose of this research is to explore the effects of creating effective customer focus and applying CRM strategies to link insurer and policyholder for public and private sector. The focus is on increasing customer retention in the insurance sector. It discusses the challenges confronting the industry in CRM implementation initiatives and suggests remedies applicable in case of both Public and Private sector insurance companies.

1.5. RESEARCH FRAMEWORK

Exhibit 1.1: Research Framework

- Preliminary Conceptualization
- Literature Review
- Research Gap
- Identification of Research Constructs
- Instrument Development
- Reporting of Findings
- Analysis
- Scale Refinement through EFA
- Data Cleaning & Tabulation
- Primary Data Collection
- Pilot Study

- Conclusions
- Managerial Implications
- Directions for Future Research
The study emphasizes the need to strategically implement a complete CRM package. The problem of insurers is in terms of their inability to translate their promises regarding customer satisfaction into realities. To accomplish this research purpose, the objectives have been formulated. A comparison has also been made with respect to the CRM practices in vogue in companies operating in public and private sector. Thus, the objective of this study is to explore and identify key CRM business processes in insurance industry with respect to private and public sector and ability of a CRM solution to enhance their functioning for better performance and effectiveness and efficient management of customers for public and private sector insurance companies.