CHAPTER II

REVIEW OF LITERATURE

The studies which are proposed by researchers are based on the empirical data at small and large-scale level. Therefore an attempt has been made in this chapter to review the available literature on the research topic. The collected literature on the topic is presented under the following captions.

Liberalisation of Insurance Business.
Regulation of Insurance Business.
Adoption of Technology.
Consumer Purchase Behavior.
Emotional Factors in Purchase of Life Insurance.
Customer Satisfaction.
Customer Satisfaction with Service Quality.
Persistency, Service Quality and Customer Satisfaction.
Complaining Behavior of Customer in services.

(Krishnamurthy, 2009) A remarkable trend in the insurance industry in the last 3 years is the rapid change in the knowledge level as well as expectations of the customers. A study conducted last year (2003) by FORTE, a collaborative effort between FICCI and ING Vysa Insurance Company about consumer behavior in the pre and post liberalization days of the industry revealed stunning changes in consumer expectations. It look as though the docile, uninformed, insurance consumer has suddenly been transformed into an aggressive and highly demanding species. Even while the fresh air of competition in every sector of the economy brings in major changes in consumer expectations. The insurance industry has witnessed a few

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unique aspects, such as regulation-inspired efforts to educate insurance buyers, and a vast change in the skills and capabilities of the intermediaries involved in distribution.

Kannan, Manivannan and Sathishkumar(2008)\textsuperscript{7} revealed that the market potential for private companies is greater as the Indians are of the opinion that private companies would be able to perform well. The insurance company should concentrate on the areas like loss prevention, assured returns, long term investment etc.

Sudarshana Reddy (2008)\textsuperscript{8} in his study has analyzed the customer perceptions towards private life insurance companies’ Policies. The population of the study consists of all the private insurance policyholders in Bangalore city. With the use of convenience sampling method, 400 respondents were selected. The required data was collected from primary and secondary sources. The conclusions drawn shows that the respondents felt that the policies offered by the private insurance are up-to the customers’ expectations. As far as alternatives of private insurance companies’ policies for public insurance companies’, majority of the respondents felt that very few policies are better alternatives for public insurance company. The customers expectations from life insurance policies has tax saving, till now, is now slowly are turning towards value added policies.

Traditionally, LIC used to target either middle-aged people or elderly people, while private insurers targeted individuals of all age groups, in their advertisement campaigns. Analysis pointed out that LIC was also biased against women; most of its policies were designed with men in mind, whereas private insurers’ products covered women’s needs, as well. Thus LIC was forced to modify its advertisement campaigns and communication in order to appeal to all groups. It made its advertisements carry universally applicable messages, focusing particularly on the young executive or the

\begin{itemize}
  \item Kannan K V, Manivannan L and Satishkumar R, www.indiamba.com
\end{itemize}
working woman, in order to tap the market comprising of people in the 18-35 years\textsuperscript{9} age group.

Life insurance is a long term business \textsuperscript{10} and clearly, all the pillars matter. The focus however will be on customer service, which will be one of the key differentiators in winning the trust of our customers. Traditionally, in life insurance business, the customer contact with the life insurer is often annual at the time of premium payment or at the time of claims (on maturity or on death). This has been changed to some extent due to customer empowerment in terms of management of his funds through switches or premium redirection. A robust customer reminder system has also been incorporated for renewal of premiums. Besides the physical renewal premium notice, customers are additionally sent E-mail and SMS alerts. These reminders are also sent after the due dates if the payment is still missed. BSLI’s customers have a range of options to make their premium payments encompassing virtually every mode of payment: viz. at the branches, deposit boxes for cheque deposit, ECS, credit card, standing instruction, salary deductions and payment through internet.

The paper published by Nageswara Rao and Madhavi (2009) \textsuperscript{11} aims at studying why the public mainly prefer private insurance companies. The objectives of the study were to identify the reason for preferring private insurance companies, to verify whether the preference varies between those who hold LIC insurance policies and those who do not, and to understand the level of satisfaction to the different aspects of the private insurance companies.

\begin{itemize}
\item \textsuperscript{9} Life Insurance Marketing in India, Case Studies in Insurance, ICFAI Centre for Management Research March 2005 p88.
\item \textsuperscript{10} Nani.B. Javeri , CEO, Birla Life Insurance, Economic Times, 12 September 2005.
\end{itemize}
A questionnaire was used to collect the primary data for the study. Annamalainagar, where Annamalai University is located is chosen as the area of study. Around 238 people who purchased AMP Sanmar policies (A private life insurance company) were chosen. Among them 50 respondents have been randomly chosen. 41 have responded and one has been found invalid because it was incomplete. So, 40 is the sample size representing 15% of the population. The collected data has been analyzed using suitable statistical tools such as ‘t’ test, ANOVA, Friedman’s test and Factor Analysis.

The conclusions drawn from the study indicates that the most important reasons for preferring private insurance company have been timely service, better service, friendly approach, better communication, immediate attention, influence of friends and relatives, agents, and trust worthiness. The first level of importance has been attached to the service factors such as friendly approach, better and timely service; the second order of reasoning for preference of private insurance goes to human relation factors such as better communication, trust worthiness, immediate attention and influence of friends and relatives, agents; the third to grouped factors which are almost product related ones such as attractive schemes and a variety of products; the fourth level of priority goes to economic factors such as less premium, more returns and the least weighted factor is comfort oriented such as less formalities and attempting a trial.

In a study undertaken by Nalini Prava Tripathy (2009) with the object of finding out the perception of customers towards insurance company through marketing variables and also to analyze the customers preference and importance assigned to different attributes, an attempt was also made to examine the satisfaction level of customers and agents regarding customer service offered by the company.

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12 Dr. Nalini Prava Tripathy – 2006 op cit pp 117-123.
The study also has been conducted to determine the position different insurance companies have been gained in the minds of the people.

(VOICE, 2009)  

“Insurance PSU’s losing out on consumer rating”, finds Voice Study. Thousand of consumers are dissatisfied with the way their claims are serviced despite spending money on insurance policies and premium. India’s first ever study on customer satisfaction in insurance sector was conducted by the Voluntary Organisation in Interest of Consumer Education (VOICE), India’s leading consumer organization.

The study was conducted covering 3600 consumers in 8 metros. The study included 12 life insurance companies and 11 non-life insurance companies. Interestingly, it revealed that none of the companies could boast of a satisfied customer base.

Bejon Misra, CEO, VOICE, says that “Public sector insurance companies, despite their long standing presence in the insurance sector, are losing out on their customer base as consumers steadily lose confidence in their service. The main factors affecting consumer perception include tardy internal redress system, employees rude behavior and general apathy to consumers interest.

The study embarked on seven merit parameters to evaluate the rating of insurance companies. These include tangibility, problem solving, reliability, responsiveness, assurance and empathy. The companies covered under life insurance companies included AVIVA, Bajaj Allianz, Birla Sun Life, HDFC Standard Life, ICICI Prudential, ING Vysya, Kotak Mahindra, LIC, Max Newyork Life, Met Life, SBI Life and Tata AIG.

The study has opened a can of worms for the insurance sector. In life insurance, the study found that though LIC still holds the lion’s share at 80% of the market, it is now no longer the only option that customers are considering. Product
differentiation is at its peak in the life insurance sector, with private players providing additional sops like allowing maximum grace period for payment of premium, prompt service and doing away with delays in giving payment receipts, and some players also woo their customers by sending quick reminders thereby taking the role of their private secretaries.

**Regulations**

Insurance services constitute one of the services for generating revenue for the development of a country’s economy. These services are important instruments in gearing the pace of capital formation in the country. The insurance industry mobilizes large funds through the sale of insurance services to a large number of widespread individuals and organizations. During the process of conducting insurance business, insurers also create liabilities and commit themselves to compensate for the losses occurring to the policyholders at a future date. The funds so collected by the insurance companies, and available at their disposal, belong to policyholders and is public money. It is therefore, essential that insurance companies must conduct their business in a healthy, transparent and sound manner based upon prudent business practices and do not indulge in unethical practices.

The forms of control and regulation exercised over insurance have differed from country to country. The nature and pattern of controls are formed and executed by its political and economic philosophy, economic and social compulsions, pressure from interested groups, past experiences etc., Based upon these factors, different countries have evolved their own regulatory mechanism for controlling the operations of insurance industry. The primary objective behind exercising control over the functioning of insurance companies is to protect the basic interests of the policyholders.
The insurance business is regulated in different ways all over the world. Exceptionally, Japan and the UK have a single regulatory body which oversees the activities of all the companies in the financial services sector. In the US, however, every state has a separate regulatory body for insurance and, hence, every state has its own rules and regulations. This regulation is based on the market environment in the particular country and aims at the growth in the business.

The Indian insurance industry is governed by the Insurance Act 1978, Life Insurance Corporation Act 1956 and Insurance Regulatory and Development Act, 1999. In pursuance to the announcement made by the Union Finance Minister in his Budget Speech of 1998-99 the Insurance Regulatory and Development Authority (IRDA) Bill 1999 was passed by both Houses of Parliament. On March 16, 1999, the Indian Cabinet Approved an Insurance Regulatory Authority (IRA) Bill that was designed to liberalize the insurance sector. The Act provides for the establishment of a statutory IRDA to protect the insurance interests of the policyholders and to regulate, promote and ensure orderly growth of the insurance industry. With the regulators giving licenses to many private players several companies have entered into the insurance market and the competition will be intense in future.

The primary objective behind these regulations is to ensure financial strength of these companies so that the interest of the policyholders are protected, the objective could efficiently be achieved through macro level policies and management. These companies may also be encouraged to observe self-discipline and code of conduct. For instance, strict compliance to maintain solvency margin will itself ensure healthy financial strength of these companies. The method of disclosure norms may extensively be used and enforced with legislative backing.

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Almost all the respondents felt that there is no risk and no need to worry about their money since all the private insurance companies are under the regulation of Insurance Regulatory Development Authority (IRDA).

**Adoption of Technology**

Technology has been the backbone of superior customer service in the Insurance sector. Insurance, at this stage, cannot remain as an island of conservatism. It has to acquire the traits of recent complexions in order to remain in the central focus of Financial Services. The number of products in Life Insurance is increasing in geometrical proportions.

The LIC is investing over Rs.600crore on an “Electronic Document Management System” that will digitize all policy documents. “Policyholders will be able to access their own documents on-line and use them for any purpose. This will also make it ease for policyholders to visit any branch and make a change in nomination or other official modifications,” said Mr. Thomas Mathew, Managing Director, LIC. The system will finally turn LIC into a paper-free office.

**Customer Purchase Behaviour**

The post liberalization era of the insurance sector has facilitated the entry of more players of diverse complexion including those from the private sector with a foreign pedigree for selling insurance products. The consumers have become more distilled as a result of the growing income, growth in size of the spending classes and increased purchasing power. The expectations of the consumers, their purchase behavior have changed a lot. The customers of today, armed with cell phones, laptops, money in their pockets and a driving ambition to succeed in their respective professions, want quality insurance products of more value at lower cost and

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17 The Hindu, 7th January 2007, pp3
guaranteed to perform as understood by them. Customers want insurers to perform keeping their needs and requirements as the primary purpose of their business.

In his paper Sathya Swaroop Debasish (2008)\textsuperscript{18} makes an attempt at identifying the key factors responsible for customer preference for life insurance products in India. Using the technique of Factor Analysis, this study identifies five major factors: Risk-Return factor, Promotional Factor, Service Quality factor, Consumer Expectation Factor and Core Product in order of preference. The study is explorative in nature and focuses basically on primary data about customer preference for life insurance in the northern regions of India. The data has been collected through structured questionnaire survey conducted through 45 designated insurance agents of various life insurance companies i.e., 12 agents of LIC and 36 of private life insurance companies. The opinion of 600 customers on 20 variables/reasons for preference of life insurance were measured on a five point scale ranging from “1” (least) to “5” (most important) depending on the importance attached to each reason. A prudent product design, by adding the feature expected by investors and spelt out in this research will make the new Life Insurance product more attractive for investors. The factors identified in the study provide key information inputs regarding investor’s preference and priorities that will guide future Life Insurance Product Managers.

A study was conducted by Emin Babakus et al., (2009)\textsuperscript{19} to develop a model on consumer choice behavior to offer a deeper analysis of evaluation decisions in the financial services sector. The model developed expands the domain of inquiry beyond the initial attribute level. The choice behavior of high involvement financial services is multifaceted. Due to inherent complexity and risk, choice behavior is a multidimensional decision best represented by multi faceted constructs. Data for the study were collected from the residents of a southeastern city in the USA by

\textsuperscript{18} Sathya Swaroop Debasish et al., Exploring Customer Preference for Life Insurance in India, Journal of Management XI MB Vol 1 No. 1 MarchL

distributing 400 questionnaires. Respondents had to have a bank account to qualify for the survey. The pool of items thus generated was then reduced to 17 by the researchers who judgmentally assigned the attributes into search, credence and experience categories. This reduced list included five search, seven experience and five credence attributes. The results suggest that consumer choice behavior can be represented as a global construct with three viable components (search, credence and experience). The model developed in this study, comprising search, credence and experience dimensions, represents a valid framework.

The study has identified several search attributes like interest rates, fees charged, service rendered, which are typically accessible and can be evaluated prior to the purchase action. For experience attribute, about which the buyers can make a reasonable quality judgment only after accumulating some experience with the service provider, different advertising and promotion strategies are recommended. Among the credence attributes identified in this study are integrity, managerial capability and technological advancement, as well as its trustworthiness in terms of keeping customers information confidential. Since these claims are the most difficult to accurately evaluate, they pose a challenge to the service provider.

Grace and O’Cas\textsuperscript{20} explore the aspects of the service brand that influence customers as they consume the service, and their post-consumption evaluations in terms of aroused feelings, satisfaction and attitude towards the brand. The core service is the process by which the service is delivered, while employee service refers to the behaviors or performances of the employees in the delivery of the service. The service scape is the physical background against which the service is delivered.

\textsuperscript{20} Debra Grace and Aron O’cass “Examining service experiences and post consumption evaluations” Journal of Services Marketing volume 18, November 6\textsuperscript{th} 2004 pp461.
Through a survey of 254 bank consumers, the authors reveal that core service, employee service and services cape make a significant contribution to the customer’s service-consumption experience, and that his or her service experience significantly affects the feelings aroused in the customer. Moreover, feelings aroused in the customer also affect his or her satisfaction and this in turn affects his or her brand attitude. Understanding buying behavior for financial services and choice of retail financial institutions has long intrigued the minds of scholars and practitioners. Financial services offered by institutions are not only intangible and fairly complex, but many consumers can also perceive them as high-risk purchases.