CHAPTER - 2
REVIEW OF LITERATURE

No researcher can do justice with the research problem at hand unless one is having proper understanding of all its related aspects. This requires detailed study of available literature and deciding the framework of the research project to be undertaken.

There is no dearth of literature regarding service quality which is considered so vital for the success of a business. However, the researcher has come across a very less number of studies in this field which explore the construct of service quality in greater details, particularly regarding Indian life insurance industry. Also the application of the service quality model used in the study is least researched as it is a relatively newer concept in the field of service quality. Therefore an intensive review is conducted and a brief discussion of some of the relevant studies is given here.

Shewhart (1931) has concluded that we must define quality of product in such a way that the numerical measure of this quality serves the following two purposes; first is to make it possible for one to see whether or not the quality of product for a given period differs from that for some other period taken as a basis of comparison. Secondly is to make possible the comparison of qualities of product for two or more periods to determine whether or not the differences are greater than should be left to chance.

Abbott (1955) has observed that when price tags are attached to ideas or services or products, it is the best bargain that wins. How a good bargain of anything depends upon both quality and price; these two elements compounded together form the basis for evaluation of winning contestants in the market place. Only when differences in quality have been eliminated by standardization does "cheapest" necessarily coincide with "best.

Tuchman (1980) has argued that quality means investment of the best skill and effort possible to produce the finest and most admirable results possible. . . .
You do it well or you do it half-well. . . . Quality is achieving or reaching for the highest standard as against being satisfied with the sloppy or fraudulent. . . . It does not allow compromise with the second-rate.

Feigenbaum (1982) has described quality as the single most important force leading to the economic growth of companies in international markets. Feigenbaum (1983) has again defined product and service quality as the total composite product and service characteristics of marketing, engineering, manufacturing and maintenance through which the product and service in use will meet the expectations of the customer.

Lawson and Watt (1983) have concluded that customers attach more importance to service quality rather than cost of service while choosing a bank. The authors have viewed that many banks try to differentiate themselves by charging low. However, such a policy may not bring desired success to them as banks work on low margins and customers can neglect slight high prices for prompt and customized services. The authors have recommended that service quality is the key to attain success in banking industry.

Phillips et al. (1983) have claimed that any genuine insurer’s growth relies upon delivering services of superior quality, which is linked to business success.

Buzzell and Gale (1987), Gronroos (1990), Zeithaml et al.(1990) have commonly accepted that service quality is meeting and/or exceeding a customer's expectations s.

Zeithaml (1988), Iacobucci et al. (1995), Rust et al. (1995) Zeithaml et al. (1996), Bloemer et al. (2002),Chumpitaz and Paparoidamis (2004) have highlighted time and again that delivering excellent/superior services is the cornerstone of customer loyalty, as the causality of relationships between loyalty and its main antecedents is described in the literature by the sequence “service quality to customer satisfaction to customer loyalty”.

Brown and Swartz (1989) have accomplished in their study that examination of the perceptions of both parties in an exchange is a way to identify gaps in expectations and experiences. Once inconsistencies have been identified, strategies and tactics for achieving more congruent expectations and experiences
can be initiated. Compatible expectations and experiences can be achieved by altering the provider's behavior and expectations and/or by altering the client's expectations and experiences. Greater consistency, in turn, leads to a more positive service encounter and enhances the likelihood that the experience will evolve into a longer term client-provider relationship.

Kassem (1989) has opined that service companies can ill afford to neglect customer service quality issues. In the past, quality was the prerogative of manufacturing sector. However, in the modern day fiercely competitive service sector, quality of services has become as important (if not more) as quality of goods.

Berry, Zeithmal and Parasuraman (1990) are of the view that the sole judge of service quality is the customer and to get a positive feedback from him; the service companies should implement the five imperatives of service quality viz. Reliability, Assurance, Tangibles, Empathy and Responsiveness in their services. The authors have advocated knowing the expectations of the customers on the said fronts and further measuring their actual perception. It becomes imperative for service companies to improve themselves on whichever front expectations of the customers outscores their perception.

Bitner (1990), Bolton and Drew (1991), Parasuraman et al.(1988) have argued that perceived service quality is a long-run, global attitudinal evaluation, whereas transaction-specific evaluations are more appropriately considered as a measure of customer satisfaction.

Zeithaml et al. (1990), Gronroos (1990) have stated that only customers judge quality and all other judgments are essentially irrelevant.

Bolton and Drew (1991) have concluded that the results of their study support several basic theoretical propositions. Consistent with prior exploratory research concerning service quality, a key determinant of overall service quality is the gap between performance and expectations (i.e., disconfirmation). For residential customers, perceived telephone service quality depended on the disconfirmation triggered by perceived changes in existing service or changes in service providers.
Leonard (1991) has stated that investment in employees in banking sector leads to better service quality, which in turn leads to better customer retention. This assertion is based in the fact that employees of the banks are inseparable to customers. A direct interaction between them demands that employees are possessing adequate skills to interact with customers. Such skills add to the service quality and go a long way in preventing customers’ churn.

Fornell (1992) has argued that although much more effort and resources are traditionally directed towards aggressive marketing for attracting new customers and increasing market shares, research has shown that defensive strategies, concerned with retaining customers, can be more profitable.

Oliver (1993), Tahir and Baker (2007) have indicated that customers must have experienced a particular service in order to achieve satisfaction; however, the perceived service quality need not necessarily be the result of any one service encounter.

Cronin and Taylor (1994) have found that the Service quality is associated with an attitude representing a long-term, overall evaluation, whereas satisfaction represents a more short-term, transaction-specific judgment.

Storbakes, Strandvik and Gronroos (1994) have explored the linkages affecting customer relationship economics and customer profitability, and established linkages between:

- Service quality and customer satisfaction.
- Customer satisfaction and relationship strength.
- Relationship strength and relationship longevity; and
- Relationship longevity and profitability.

Schneider and Bowen (1995) have emphasized that in a service business a lot of emphasis is usually placed on the procedures, processes, and contexts for service to the extent the organization tends to overlook that there is also something called the “core service”. Further, they summarize that the core service itself has perceivable, tangible, and multidimensional quality features that could distinguish services, and could predominate over other issues such as delivery and the like.
The nature and quality of this core service largely influences the quality perceptions of the customers.

Herbig, Paul and Genestre (1996) have established that service quality in banks is better in developed countries in comparison to developing and underdeveloped countries. The authors are of the view that banks in underdeveloped and developing countries are still undermining the importance of service quality in retaining customers on sustained basis. This may not, however, continue for a long period as customers in such countries have started becoming more demanding on account of intensifying competition in the banking industry of these countries.

Buttle (1996) has viewed that since its launch in 1985, SERVQUAL has become a widely adopted technique for measuring service quality. However, there is a need to deliberate upon the ‘expectations s’ aspect of the model as the same is reflected in perceptions itself. The author has opined that low perceptions score itself convey high customer expectations while high perceptions score signify that expectations are met to a desired extent. Moreover, expectations of modern day customers are always sky high and comparing it with perceptions does not make too much of a sense.

Stafford and Wells (1996) have concluded in their study that in insurance industry, the principal means by which one insurer can distinguish him/her from another is based on the service before and after the sale of the policy.

Zeithaml, Berry and Parasuraman (1996) have found in their research that customers experiencing no service problems have the strongest levels of loyalty intentions and the weakest switch and external response intentions. However, their pay more intentions are not significantly higher than those of customers experiencing service problems that were resolved satisfactorily. Among customers experiencing recent service problems, those receiving satisfactory resolution have significantly higher loyalty and pay more intentions, and significantly lower switch and external response intentions, than those with unresolved problems. Thus, effective service recovery significantly improves all facets of behavioral intentions. However, with the possible exception of the pay more dimension, the improvements do not restore intentions to the levels expressed by customers not experiencing service problems.
Yavas, Bigin and Shemwell (1997) in their study have revealed a positive relationship between customers’ satisfaction through service quality and their long term commitment to the bank. Further, the relationship between service quality and complaint behaviour of the customers, was found to be negative. Better the quality, lower will be the number of complaints received from the customers and vice-versa.

Angur, Natranjan and Jahera (1999) have acknowledged that the Indian customers becoming more demanding for service quality since mid 1990s. This is on account of the fact that Indian banking sector was opened up by this time and it suddenly led to enhanced choices for Indian customers.

Mehta, Lalwani and Han (2000) have observed that customers demand value for the money they are spending to avail services. They can get such a value provided they get better services at the same prices or same services at the lower prices. The authors have highlighted the importance of bringing in quality in the services.

Parsuraman (2000) has concluded that conventional marketing will merely become a ticket to enter in the competitive service industry. To stay and prosper, the service providers would require a genuine commitment to serve customers well. This demands a through change in their existing outlook. They need to come out with everything that can enhance the satisfaction level of their customers.

Srivadas and Baker (2000) have found a high degree of positive correlation between service equality and satisfaction level of the customers. This is true in case of services ranging from banking to tourism and aviation and so forth. The service providers can ill-afford to ignore service quality any longer.

Mitra and Nayak (2001) quoted regarding insurance plans that the traditional life insurance business for the LIC has been a little more than a savings policy. Term life (where the insurance company pays a predetermined amount if the policyholder dies within a given time but it pays nothing if the policyholder does not die) has accounted for less than 2% of the insurance premium of the LIC.

Reagan (2001) has admitted that consumer attitude vis-a-vis expectations of value and service from their local independent agent, has begun to erode at the
same time investor knowledge has increased. As more and more customers become self-educated, they increasingly tend to evolve away from the more traditional agent-client relationship.

Skipper (2001) Service sectors have now become increasingly vibrant owing to the liberalization policies of nations coupled with the process of globalization and IT revolution. This revolution has also induced a shift of paradigm on customer requirements and expectations in addition to them being “quality conscious”. Insurance sector is one of the sectors, which has witnessed this change and has tuned itself to the local/global demands particularly after the inception of General Agreement on Trade in Services (GATS). In fact, the more developed and efficient a country’s insurance market, the greater will be its contribution to economic prosperity.

Sureshchandar et al. (2001) have stated that the customer’s perceived quality depends upon five factors: core service, human elements of service delivery, systemization of service; non-human element in service delivery, tangibles of service; servicescapes, and social responsibility.

The core service refers to the essence of a service. In a service sector the service features offered are as important as how they are delivered. Human element of service delivery refers to all aspects (reliability, responsiveness, assurance empathy, moments of truth, critical incident and recovery) that will fall under the domain of the human element in the service delivery. The non-human element in the service delivery is in contrast to the human element. Service delivery processes should be perfectly standardized, streamlined, and simplified so that customers can receive the service without any hassles. The tangible of the service facility refers to the equipment, machinery, employee appearance, etc., or the man-made physical environment, popularly known as the “servicescapes”. The social responsibility is the obligation of organization management to make decision and take actions that will enhance the welfare and interests of society as well as the organization. When an organization shows enough evidence on its Social responsibility it is natural to attract more customers.

Sinha (2002) has observed that it is unlikely that the LIC and the GIC will shrivel up and die within the next decade or two. The IRDA has taken a "slowly
slowly" approach. It has been very cautious in granting licenses. It has set up fairly strict standards for all aspects of the insurance business (with the probable exception of the disclosure requirements). The regulators always walk a fine line. Too many regulations kill the incentive for the newcomers; too relaxed regulations may induce failure and fraud that led to nationalization in the first place.

Sureshchandar et al. (2002) have indicated that the insurers are often accused that they are not always prepared to take all the necessary actions for adapting the quality of their services to their customers’ preferences, especially when customer needs are shifted through time. They, often, find it difficult to envision and understand what service attributes, and at what levels, are required to indicate high quality.

Beck and Webb (2003) concluded that using a panel with data aggregated at different frequencies for 68 economies in 1961–2000, it was found that economic indicators—such as inflation, income per capita, and banking sector development—and religious and institutional indicators are the most robust predictors of the use of life insurance. Education, life expectancy, the young dependency ratio, and the size of the social security system appear to have no robust association with life insurance consumption. The results also highlighted the importance of price stability and banking sector development in fully realizing the savings and investment functions of life insurance in an economy.

Berry (2003) has come to the conclusion that when customers fail to judge a company’s offerings, they start scrutinizing people, facilities and processes as an evidence of service quality. Thus, these demand equal attention of the service companies. These days, when there is little to differentiate one’s offering, investment in facilities and processes may emerge as an important differentiation plank.

Huseyin (2003) has found that most of the Turkish Banks have failed miserably in meeting quality expectations of their customers. This has lead to liquidation of several banks in the country.

Kapse and Kodwani (2003) have opined that in the changing scenario for the insurance sector there will be good opportunities for the insurance sector to
expand its market base. For this purpose there is a need to improve the features of insurance products to make them more liquid, or short term schemes could be increased. It is shown that rewards implied by the insurance products (particularly the tax benefits) are quite close to those observed in banks and small saving schemes of the government. The performance of mutual funds which come in many different types, is found to be reasonable compared to the risk involved. Further, it is also observed that it may not be very difficult to win over the confidence of small investors towards insurance policies if good marketing techniques are adopted to educate the targeted population about the uses of insurance policies from an investment point of view.

Wong and Sohal (2003), meanwhile, have established high degree of positive correlation between service quality and loyalty of the customers. The authors have observed that good quality services leads to higher satisfaction of the customers which, in turn make them loyal to the service organization. Such customers may stand for the service provider at the time of adversity.

Jain and Gupta (2004) have viewed that little is known about measurements of service quality perceptions in India and there is a need to have a thorough debate before employing any scale (measuring service quality) developed in foreign countries. Such scales may not prove valid in Indian environment.

Rand (2004) have investigated the application of SERVQUAL’s service quality in insurance industry in Greece and Kenya and concluded that results regarding service quality gap are found to be similar, as customer expectations are found to be higher than perceptions in both of the countries.

Sawhney, Balasubramaniam and Krishnan (2004) have established that key to success in services involves redefining markets in terms of customer activities and outcomes and their expectations of service quality.

Veneties and Ghauri (2004) have found that service quality contributes very strongly in maintaining long term relation with customers. Further, it has a positive effect on customers’ intention to stay with the service provider. In the modern times, when retaining customers is far more cost effective and beneficial than attracting new customers, imparting quality in services may work wonders for the service providers.
Chattoraj (2005) has stated that Indian insurance market has been going through a phase of transition. Insurance market in India is as volatile as any other market. Keeping pace with the changes, therefore, has become a daunting task. Customers today are more rational; they always look for maximizing value within the bound and limitations of time, knowledge, search cost, mobility and of course disposable income.

Bhatt (2005) has mentioned that insurance is an intensively people oriented business and human resources will be the undoubted differentiator like in any other retail industry. The quality of manpower attracted and retained by insurer and how their abilities and ambitions are harnessed would be the litmus test for the industry.

Marwa (2005) has stated that service organizations face four quality challenges: to deliver superior services to satisfy their customers, to achieve higher customer satisfaction than their competitors, to retain customers in the long run, and to gain market share; with the latter three being dependent on the first. Also stated further that service providers must be proactive in collecting, collating and assessing their customers’ service preferences against perceptions, to establish the extent to which customers requirements are being met by the services they provide and subsequently take corrective measures to sustain service quality.

Tamilarasan and Sunder (2005) have acknowledged that as competition has become more acute among insurance firms, it has been imperative on the part of firms to acquire as well as retain a strong customer base, which will enable the existing firms to retain and sustain their existing customer base and market share. On the other side, new firms be to acquire or win over the customers/ prospects in their favor initially and have considerable market-share in long run.

Frei (2006) has emphasized that delivering quality services regularly at sustainable cost, will certainly help the service providers to carry their operations successfully. This may also prove to be a potent source of sustainable competitive advantage for them.

Sekar (2006) has suggested that the insurance is one product which is not demanded by a customer, but supplied to him by intensive education and marketing. Insurance is bought not sold. The new concept of demand side
innovation focuses more on customers’ social and economic reality, striving to deliver maximum value to the customer at an affordable price. Therefore, when the customer becomes the primary focus, including him in the innovation process becomes mandatory.

Barkur et al. (2007) have found that spending wisely to improve service comes from continuous learning of the “expectations s” and “perceptions” of customers and all the stake holders. Leading business organizations over the world have learnt the art of growing strategically by continually expanding their capabilities to create their future. Further this study has made the point clear that the critical factors in an Insurance Sector, e.g. Past experience, Personal needs, External communication, Word of mouth, and Active clients do have significant influence on the Service Quality. Further, the simulation results indicate that the following measures would improve the service quality:

- enhancing customer expectations;
- creating awareness to increase the customer needs;
- promoting internal communication instead of external communication;
- delighting the customers to promote word of mouth; and
- involving the active clients to a greater extent.

Vanniarajan and Jeyakumaran (2007) have explored the behavior of customers of life insurance sector and admitted that customization and larger distribution network can help in influencing attitude of customers towards the service providers.

Ahmad and Sungip (2008) have concluded that the insurance industry faces numbers of challenge and a unique roadblock to build loyal and quality customer relationships. The biggest challenge the insurance industry face is meeting customer expectations for faster, better service in the face of rising loss cost and increasing price competition.

Bodla and Bishnoi (2008) have concluded in their study regarding life insurance services that majority of executive are of the opinion that customer relationship management is a valuable tool as it reduces cost and time, help in
creating as well as retaining customers, improves the financial resources and sales. The insurance companies have been rated high and very high by a large majority of the executives in so far as the task of identifying customer needs, customized services, and focus on key customers is concerned.

Chawla and Singh (2008) have explored the service quality factors affecting customer satisfaction in insurance sector in pre and post- liberalization period and concluded that satisfaction level is found to be higher among customer who purchased insurance in pre- liberalization period than that of services purchased in post- liberalization period.

Kumar, Kee and Taap (2009) while evaluating the relative importance of different dimensions of service quality in the mind of the customers of Indian commercial banks, came to the conclusion that reliability is most sought by them while tangibility has least preference of theirs.

Kumar and Yadav (2009) have opined that the organizations must realize that there is nothing more important to them than serving their customers. This is the way to enhance the satisfaction level of the banking customers and profitability.

Selvavinayagam and Mathivanan (2010) have observed that the competitive climate in the Indian insurance market has changed dramatically over the last few years. At the same time, changes have been taking place in the government regulations and technology. The expectations of policy holders are also changing. The existing insurance companies have to introduce many new products in the market to compete with products of recently entered life insurance companies.

Bala et al (2011) have concluded that the results of the study indicate that a meaningful pattern or a higher level of abstraction can be obtained from SERVQUAL in the new context, although the original five dimension of the scale are not confirmed. However, SERVQUAL would need to be customized for each industry.
Dinesh, Arivazhagan and Moorthy (2011) have concluded in their study on of the private life insurer in India that Professional category respondents have high perceptual level with regards to the financial credential of the selected company, Most of the respondents have high perceptual level in servicing aspect of timely reminder of dues, Most of the respondents have high satisfaction level of claim admissibility and claim settlement and Salaried class respondents mostly satisfied for taking insurance as a tax exemption tool.

Singh and Kumar (2011) have concluded that service quality in non-life insurance services has significant effect on both customer satisfaction and purchase intention and this effect is comparatively bigger on purchase intention rather than customer satisfaction.

Barik (2012) has concluded that customer expects a lot when purchase the life insurance product as it is a pure service. Both desired and adequate expectations vary under different situation. It may be personal or influenced by the surrounding. Apart from policy bond, claim, relationship building, technology are few core area which have major impact on customers mind and finally expectations. Multinational companies must consider various factors relating to customer expectations and design service design accordingly.

Das (2012) has concluded that the life insurance sector in India has enlarged by more than twice after the formation of IRDA. It is also observed that LIC is losing its market share in favor of new entrants or private companies. Being the largest insurance company in India, it is obvious that LIC has the largest strength of insurance agents and insurance business. It is further seen that LIC is well ahead of private insurers in terms of premium collection. It is worth noticing that all private companies suffered huge losses, but again, only LIC earned profits. It can be said that, LIC is the only life insurer in India that is fairly settled but the market share of LICI is decreasing day by day. Private players play a rivalry role in the insurance market. Further, it is observed that there should be a large gap between new business premium amount and renewal premium, but in case of Indian insurance business, this gap is too narrow. Moreover, the operating expenses of both private and public players are too high which needs to be minimized.
Dave (2012) has concluded that among customers of life insurance companies, male and female have not significantly different expectations with regard to the contents of advertising. On the other hand male and female satisfaction for agents’ services is significantly different. The study also revealed that salaried persons, housewife, businessman and farmers expectations for contents of advertising are significantly related.

Gulati et al. (2012) have concluded in that there exists a significant perceptual difference among customers regarding overall service quality with their respective insurance companies. With regard to gap analysis of customers’ expectations and perceptions, it is found that the dimension of responsiveness accounted for highest gap score following by Reliability and Tangibility which depicts that insurance employees are less responsive to customers’ needs. Further it is concluded that the customers are less satisfied by the services provided by insurance companies. The gap between desirability and availability is an alarming bell for some insurance companies.

Jain and Munot (2012) have concluded that a large number of households are not aware of the importance of being insured and this awareness is found to be comparatively a little better in households where members are insured rather than households where members are not insured. Also, the misconceptions are also found to be higher in uninsured households.

Kumar and Kumari (2012) have concluded that the existing public insurance service providers should remain competitive by doing things better and faster, and by ensuring cost effectiveness with performance. Large numbers of initiatives have been taken by these public sector companies to compete with private sector companies. But still the public sector companies need to reassess their present status after having modified their approach & philosophy in the post-reform period. Further it is concluded that today, in this liberalized world, in order to sustain them, the insurance companies have to ensure quality products at a competitive price. Companies can lower the price of the product by reducing the cost. Their survival depends upon their performance in profitability, productivity, efficiency and service quality.
Negi and Singh (2012) have suggested that the insurance companies should try to maintain the timely and satisfactory service along with maintaining their reputation and goodwill. The companies should pay more attention in timely and hassle free settlement of the claims. Further customer relationship management should be of utmost importance for such companies. Also, ‘Brand Loyalty’ has been rated lowest among customers while selecting and purchasing insurance product which signifies the healthy competition among the insurance industry.

Shameem and Gupta (2012) have concluded that Life insurance companies in India require new strategies in order to survive and survive successfully. Companies instead of focusing only on improving the variety of products needs to focus on targeting new segments and implement innovative strategies in order to achieve sustained growth and ensure profitability of business as well as growth of insurance coverage.

Sridevi (2012) have identified certain major factors which play vital the role in developing consumer’s perceptions towards Life Insurance Policies. These are Consumer Loyalty, Service Quality, Ease of Procedures, Satisfaction Level, Company Image, and Company-Client Relationship. Further study concluded that customers have positive perceptions towards life insurance policies.

From these studies, it is clear that various studies related to one aspect or the other of service sector has been conducted from time to time. However, there are only a few studies, which are conducted to measure the service quality in life insurance services. Also, these studies do not explore the service quality in the context of Indian life insurance industry with required detail and relevance. Thus, to fill the gap, the present study is fully justified.