CHAPTER - 1
INTRODUCTION

The scenario of today’s corporate India is altogether different to what it happened to be before the era of economic reforms. Under the prevailing hyper competitive environment ‘survival of the fittest’ has become popular mantra for every business, be it a manufacturer or a service provider. These days, focus is on creating and sustaining loyal clientele, so that, marketer can improve profitability, market share and brand image.

The same is true about the Indian life insurance industry, since opening up the number of global players in the market has increased and hence the competition. The opening up of the insurance sector is also indicative of new products, increased product variants and improved customer service. Also the Product innovation, and channel diversification would gain momentum, in line with the global trend of the convergence of financial services.

In such a volatile and challenging environment, insurance companies are facing tough time and they are now more actively adopting innovative marketing strategies which can help in strengthening their market positions. Indian life insurance companies are now more customer oriented and offering insurance plans best suited to customers, redesigning service processes for effective delivery to give best service experience to customers so that a strong and everlasting bond can be created between company and the customer. As life insurance is a high credence service which is not that easy to assess, unless or otherwise, viewed by the eyes of customers, so insurance companies must try to understand the perceptions of customers regarding level of service quality they expect, level of service quality they perceived and how different is company’s perceptions from the customers. Once these gaps are identified then life insurance companies can go for filling up of these gaps with improved marketing strategies to give best service experience to customers.

By the above discussion, the relevance of service quality in services is quite evident and the same is applicable to life insurance services. Also, there are very
less number of studies available that researches service quality construct with regards to life insurance services, still there is a lot to be explored and discussed to improve the quality of life insurance services in India. Therefore the purposed study, “Service Quality in Indian Life Insurance Industry- An Empirical Study”, aims to assess the level of service quality perceived by Indian life insurance customers, so that better marketing strategies can be adopted to benefit the customers more.

Also, it is well accepted in researches conducted in the field of service quality that there is a relationship between service quality and customer satisfaction; customer satisfaction and customer bonding; customer bonding and customer loyalty; customer loyalty and company profitability and sustainability. So quite obviously, studying the construct of service quality in context of life insurance industry can help companies in long way, which can ultimately felicitate customer with improved services, hence the study is conducted.

To introduce the study and all relevant concepts and constructs, this chapter is distributed in three sections. First section introduces about Indian life insurance industry and primarily focuses on the evolution, regulatory regime and present status of the industry. Second section discusses the basic concepts of service quality and their application in present study. Last, third section contains the relevant and very brief information of selected life insurance companies which as a whole represent the industry under the study.

1.1 Indian Life Insurance Industry

1.1.1 An Overview

World economy is day by day turning into service economy. The service sector has now significantly surpassed the manufacturing sector in terms of contribution to Gross Domestic Production (GDP) in both developed and developing countries. In economies like U.S, France and U.K., service sector alone contribute 78% (approx.) and in economies like Japan, Italy, Brazil, Spain, Canada and Russia service sector is contributing more than 60% of the GDP in 2010 (Computed from UN National Accounts Statistics accessed on 8 February 2012).
In India also, the contribution of services is very significant, services share in GDP at factor cost (at current prices) has increased from 33.5 percent in 1950-51 to 55.1 percent in 2010-11 and to 56.3 per cent in 2011-12 as per Advance Estimates (AE). If construction is also included, the service sector’s share increases to 63.3 per cent in 2010-11 and 64.4 per cent in 2011-12. With a 16.9 percent share, trade, hotels, and restaurants as a group is the largest contributor to GDP among the various services subsectors, followed by financing, insurance, real estate, and business services with a 16.4 per cent share. Community, social, and personal services with a share of 14.3 per cent is at third place. Construction, a borderline service inclusion, is at fourth place with an 8.2 per cent share (Computed from Central Statistical Office (CSO) of India data 2011). Also the service sector growth rate (at constant prices) has always been above overall GDP growth rate since 1996-97 except for 2003-04 when the two converged.

Thus for the last 15 years, this sector with growth much above overall GDP growth of the economy has been pushing up the growth of the economy with a great amount of stability. The CAGR(Compound Annual Growth Rate) of the services sector at 10.2 percent for the period 2004-05 to 2010-11 has been higher than the 8.6 per cent CAGR of GDP during the same period, clearly indicating that the services sector has outgrown both the industry and agriculture sectors.

In this vital growth of service sector in India, life insurance service sector is also contributing very significantly with a very regular growth rate. With largest number of life insurance policies enforced in the world, Insurance happens to be a mega opportunity in India. It’s a business growing at the rate of 15-20 per cent annually. In life insurance business, India ranked 9th among the 156 countries, for which data are published by Swiss Re. During 2010-11, the estimated life insurance premium in India grew by 4.2 per cent (inflation adjusted). However, during the same period, the global life insurance premium expanded by 3.2 per cent. The share of Indian life insurance sector in global market was 2.69 per cent during 2010, as against 2.45 per cent in 2009.

Together with banking services, it adds about 9 per cent to the country’s GDP. Gross premium collection is nearly 4.2 per cent of GDP and the fund
available, as on March 31, 2012, with the biggest player in life insurance industry i.e. Life Insurance Corporation of India (LIC) for investments is about 12,69,070 crore and the total fund available with the industry is about 15,81,268 crore.

Yet, nearly 80 per cent of Indian population is without life insurance cover while health insurance and non-life insurance continues to be below international standards. And this part of the population is also subject to weak social security and pension systems with hardly any old age income security. This itself is an indicator that growth potential for the insurance sector is immense.

Along with an impressive growth rate a well-developed and evolved insurance sector is also required for economic development as it provides long term funds for infrastructure development and at the same time strengthens the risk taking ability. It is estimated that over the next ten years, India would require investments of one trillion US dollar. The Insurance sector, to some extent, can enable investments in infrastructure development to sustain economic growth of the country. On the other hand this kind of system can also play an effective role in improvement of quality of services delivered to consumers. As on day there is found huge grievances among consumer of services in India and same is true for life insurance services.

Insurance is a federal subject in India. There are two legislations that govern the sector: The Insurance Act 1938 and the IRDA Act 1999. The insurance sector in India has come a full circle from being an open competitive market to nationalization and back to a liberalized market again. Tracing the developments in the Indian insurance sector reveals the 360 degree turn witnessed over a period of almost two centuries.

The new liberal policies permitting the entry of private players and the reform initiatives undertaken by the Insurance Regulatory and Development Authority (IRDA) have helped the industry evolve at a fast pace and emerge as one of the fastest growing industries in the country. People's perceptions of insurance has also changed from an instrument of saving to a risk-hedging tool. This change has been facilitated by the emergence of a range of new insurance products suiting diverse needs of consumers. The initial years of liberalization continued to see the
Life Insurance Corporation of India (LIC) retaining a dominant position in the market. However, as time went by, private companies like ICICI Prudential Life and Birla Sun Life, which were among the first batch of entrants, witnessed great success in securing new business.

Competition between the Life Insurance Corporation of India (LIC) and the private sector insurers continues to intensify. While innovative products have been underpinning private insurers premium growth, the threat of losing market share has also led to more aggressive pushes by LIC to stay competitive such as to develop new distribution channels like bancassurance. As a result, though LIC lost significant market share to private companies in the post-liberalization period, it still retains a commanding position in the life insurance segment. While, most of the product innovations came from the private players initially, LIC joined the race soon in order to protect its turf. While LIC still dominates in segments like endowments and moneyback policies, private insurers have already wrested a significant share of the annuity and pension products market. Such intense competition has resulted in faster premium growth as well as deeper penetration for the entire market.

At the same time, the profile of Indian consumers is also evolving. Consumers are more actively managing their financial assets, and are increasingly looking to integrated financial solutions that can offer stability of returns along with more comprehensive protection. Insurance has emerged as an attractive and stable investment alternative that offers total protection for life, health as well as wealth. These factors have contributed to changes in demand for insurance products. While traditional life insurance products like individual insurance, whole life insurance and term life insurance continue to remain popular to this day, new products such as single premium, investment-linked, retirement products, variable life and annuity products are on a growth trajectory.

By this discussion it seems everything is going great with Indian insurance industry, but with huge opportunity, there exists many challenges also. To understand the present environmental status of the industry an effort is made to arrange all relevant information in greater detail. So the following portion of the
chapter is devoted to create a better understanding of the present scenario of Indian insurance industry.

1.1.2 Evolution of Indian Life Insurance Industry

1.1.2.1 Historical Perspective

The history of life insurance in India dates back to 1818 when it was conceived as a means to provide financial security for English Widows. Interestingly in those days, a higher premium was charged for Indian lives than the non-Indian lives, as Indian lives were considered more risky for coverage.

The Bombay Mutual Life Insurance Society started its business in 1870. It was the first company to charge same premium for both Indian and non-Indian lives. The Oriental Assurance Company was established in 1880. The General insurance business in India, on the other hand, can trace its roots to the Triton (Tital) Insurance Company Limited, the first general insurance company established in the year 1850 in Calcutta by the British. Till the end of nineteenth century insurance business was almost entirely in the hands of overseas companies.

Insurance regulation formally began in India with the passing of the Life Insurance Companies Act of 1912 and the provident fund Act of 1912. Several frauds during 20's and 30's sullied insurance business in India. By 1938 there were 176 insurance companies. The first comprehensive legislation was introduced with the Insurance Act of 1938 that provided strict State Control over insurance business. The insurance business grew at a faster pace after independence. Indian companies strengthened their hold on this business but despite the growth that was witnessed, insurance remained an urban phenomenon.

The Government of India in 1956, brought together over 240 private life insurers and provident societies under one nationalized monopoly corporation and Life Insurance Corporation (LIC) was born. Nationalization was justified on the grounds that it would create much needed funds for rapid industrialization. This was in conformity with the Government's chosen path of state led planning and development.
1.1.2.2 Important milestones in the life insurance business in India

1912 The Indian Life Assurance Companies Act enacted as the first statute to regulate the life insurance business.

1928 The Indian Insurance Companies Act enacted to enable the government to collect statistical information about both life and non-life insurance businesses.

1938 Earlier legislation consolidated and amended to the Insurance Act with the objective of protecting the interests of the insuring public.

1956 245 Indian and foreign insurers and provident societies taken over by the central government and nationalized the insurance sector. LIC formed by an Act of Parliament- LIC Act 1956- with a capital contribution of Rs. 5 crore from the Government of India.

1993 Setting up of Malhotra Committee

1994 Recommendations of Malhotra Committee published

1995 Setting up of Mukherjee Committee

1996 Setting up of (interim) Insurance Regulatory Authority (IRA) and Recommendations of the IRA

1997 Mukherjee Committee Report submitted but not made public

1997 The Government gave greater autonomy to Life Insurance Corporation, General Insurance Corporation and its subsidiaries with regard to the restructuring of boards and flexibility in investment norms aimed at channeling funds to the infrastructure sector

1998 The cabinet decided to allow 40% foreign equity in private insurance companies (26% to foreign companies and 14% to Non-resident Indians and Foreign Institutional Investors).

1999 The Standing Committee headed by Murali Deora decides that foreign equity in private insurance should be limited to 26%. The IRA bill is renamed the Insurance Regulatory and Development Authority Bill

1999 Cabinet clears Insurance Regulatory and Development Authority Bill 2000
President gives Assent to the Insurance Regulatory and Development Authority Bill

2000 IRDA was incorporated as the statutory body to regulate and register private sector insurance companies.

2006 Relaxation of foreign equity norms, thus facilitating the entry of new players

1.1.2.3 Insurance Sector Reforms

In 1993, Malhotra Committee headed by former Finance Secretary and RBI Governor R.N. Malhotra was formed to evaluate the Indian insurance industry and recommend its future direction. The Malhotra committee was set up with the objective of complementing the reforms initiated in the financial sector. The reforms were aimed at creating a more efficient and competitive financial system suitable for the requirements of the economy keeping in mind the structural changes currently underway and recognizing that insurance is an important part of the overall financial system where it was necessary to address the need for similar reforms. In 1994, the committee submitted the report and some of the key recommendations included:

- **Structure**

  Government’s stake in the insurance companies is to be brought down to fifty percent. Government should take over the holdings of GIC and its subsidiaries so that these subsidiaries can act as independent corporations. All the insurance companies should be given greater freedom to operate.

- **Competition**

  Private Companies with a minimum paid up capital of Rs.1bn should be allowed to enter the sector. No Company should deal in both Life and General Insurance through a single entity. Foreign companies may be allowed to enter the industry in collaboration with the domestic companies. Postal Life Insurance should be allowed to operate in the rural market. Only one State Level Life Insurance Company should be allowed to operate in each state.
- **Regulatory Body**

  The Insurance Act should be changed. An Insurance Regulatory body should be set up. Controller of Insurance (a part of the Finance Ministry) should be made independent.

- **Investments**

  Mandatory Investments of LIC Life Fund in government securities to be reduced from 75% to 50%. GIC and its subsidiaries are not to hold more than 5% in any company (there current holdings to be brought down to this level over a period of time)

- **Customer Service**

  LIC should pay interest on delays in payments beyond 30 days. Insurance companies must be encouraged to set up unit linked pension plans. Computerization of operations and updating of technology should be carried out in the insurance industry.

  The committee emphasized that in order to improve the customer services and increase the coverage of insurance policies, industry should be opened up to competition. But at the same time, the committee felt the need to exercise caution, as any failure on the part of new players could ruin the public confidence in the industry. Hence, it was decided to allow competition in a limited way by stipulating the minimum capital requirement of Rs.100 crore.

  The committee felt the need to provide greater autonomy to insurance companies in order to improve their performance and enable them to act as independent companies with economic motives. For this purpose, it had proposed setting up an independent regulatory body- The Insurance Regulatory and Development Authority.

  Reforms in the Insurance sector were initiated with the passage of the IRDA Bill in Parliament in December 1999. The IRDA since its incorporation as a statutory body in April 2000 has fastidiously stuck to its schedule of framing regulations and registering the private sector insurance companies. Since, being set up as an independent statutory body, the IRDA has put in a framework of globally
compatible regulations. The other decisions were taken simultaneously to provide the supporting systems to the insurance sector, and particularly, regarding the life insurance companies, IRDA launched online service for issue and renewal of licenses to agents. The approval of institutions for imparting training to agents has also ensured that the insurance companies would have a trained workforce of insurance agents to sell their products.

1.1.3 Present regulatory regime of the life insurance industry

1.1.3.1 Licensing and Capital

The Life Insurance industry, now open to private players since 2000, is required under the government mandate of maintaining a minimum capital of Rs 1 bn, of which a maximum of 26% stake can be held by a foreign partner as equity. For license renewal, each company is required to file an application to the IRDA on an annual basis accompanied with a fee of Rs 50,000 for each class of insurance business and 20% of the total gross premium written by the insurer in the previous year of operation in India or Rs 0.1 bn whichever is less.

It also seeks to give a detailed background for each of the following key personnel: chief executive officer, chief marketing officer, appointed actuary, chief investment officer, chief of internal audit and chief finance officer. Details of the sales force, activities in rural business and projected values of each line of business are also required. If an application is rejected, the applicant will have to wait for a minimum of two years to make another proposal, which will have to be with a new set of promoters and for a different class of business.

1.1.3.2 Solvency controls

Life insurers have to observe the solvency ratio, defined as the ratio of the amount of available solvency margin to the amount of required solvency margin:

- The required solvency margin is based on mathematical reserves and sum at risk, and the assets of the policyholders’ funds
- The available solvency margin is the excess of the value of assets over the value of life insurance liabilities and other liabilities of policyholders’ and shareholders’ funds.
1.1.3.3 Business conduct

Along with licensing and solvency regulations, the IRDA Act also prescribes guidelines and regulations on business conduct. It specified the creation and functioning of an Insurance Advisory Committee that sets out relevant rules and regulation. All insurers are required to provide some coverage for the rural sector. This is known as the Obligations of Insurers to Rural Social Sectors. In respect of life insurers, the share of premiums from the rural social sectors shall be (a) 5% in the first financial year; (b) 7% in the second financial year; (c) 10% in the third financial year; (d) 12% in the fourth financial year; and (e) 15% in the fifth year. In respect of all insurers, (a) 5,000 lives in the first financial year; (b) 7,500 lives in the second financial year; (c) 10,000 lives in the third financial year; (d) 15,000 lives in the fourth financial year; and (e) 20,000 lives in the fifth financial year.

1.1.3.4 Other Norms

The insurance players today are expected to invest the funds with the combined objectives of liquidity, maximization of yield and safety by conferring to the Authority’s guidelines on investments. An investment policy has to be submitted to the Authority by an insurer before the start of an accounting year for efficient resource allocation. With moderate entry barriers prevalent in the industry and minimal government interference possible, more industrialists and public sector banks are jumping into this sector. Thus the whole industry is moving towards mass customization to develop products which suit the customers’ needs perfectly.

The government stipulated investment norms for insurers to facilitate efficient allocation of their resources and enhancement of insurers’ efficiency ratios are provided in the table 1.1
Table 1.1
Insurance Investment Norms

<table>
<thead>
<tr>
<th>Sr. No</th>
<th>Type of Investment</th>
<th>Percentage</th>
</tr>
</thead>
<tbody>
<tr>
<td>1.</td>
<td>Government Securities</td>
<td>25%</td>
</tr>
<tr>
<td>2.</td>
<td>Government Securities or other approved securities (including 1. Above)</td>
<td>Not less than 50%</td>
</tr>
<tr>
<td>3.</td>
<td>Approved Investments specified as follows:</td>
<td></td>
</tr>
<tr>
<td></td>
<td>a) Infrastructure and Social Sector</td>
<td>Not exceeding 20%</td>
</tr>
<tr>
<td></td>
<td>b) Others to be governed by Exposure/ Prudential Norms specified in regulation 5</td>
<td>Not exceeding 15%</td>
</tr>
<tr>
<td>4.</td>
<td>Other than in Approved Investments to be governed by Exposure/ Prudential Norms</td>
<td>Not exceeding 15%</td>
</tr>
<tr>
<td></td>
<td>specified in Regulation 5</td>
<td></td>
</tr>
</tbody>
</table>

Source: Insurance Regulatory and Development Authority of India (IRDA)

1.1.3.5 Pension and General Annuity Business

Every insurer shall invest and at all times keep invested assets of Pension Business, General Annuity Business and Group Business in the following manner:

Table 1.2
Pension and General Annuity Business Investment Norms

<table>
<thead>
<tr>
<th>Sr. No</th>
<th>Type of Investment</th>
<th>Percentage</th>
</tr>
</thead>
<tbody>
<tr>
<td>1.</td>
<td>Government Securities</td>
<td>Not less than 20%</td>
</tr>
<tr>
<td>2.</td>
<td>Government Securities or other approved securities (including 1. Above)</td>
<td>Not less than 40%</td>
</tr>
<tr>
<td>3.</td>
<td>Balance to be invested in Approved Investments as specified in schedule 1 to be</td>
<td>Not exceeding 60%</td>
</tr>
<tr>
<td></td>
<td>governed by Exposure/ Prudential Norms specified in Regulation 5</td>
<td></td>
</tr>
</tbody>
</table>

Source: Insurance Regulatory and Development Authority of India (IRDA)

Another important change that the government implemented in the sector was improvement in the servicing standards prevalent within the industry. For instance the government mandated that no life insurer could operate without an Actuary appointed after approval by the IRDA. Besides this, to protect the interests
of the policy holders the authority has come out with the Insurance Advertisement and Disclosure Regulations which ensure that the insurance companies adhere to fair trade practices and transparent disclosure norms while addressing the policyholders or the prospects. Policyholder protection was enhanced through the enactment of the Protection of Policyholders’ Interests Regulations, 2002. It stipulates the responsibility of insurance companies to spell out clearly the terms and conditions of insurance policies as well as other details. For example, in life insurance, details of any riders attaching to the main policy have to be given to the policyholders.

Insurance agents are governed by the Licensing of Insurance Agents Regulations 2000 and the Licensing of Insurance Regulations (amendment) 2002. Importantly, to ensure professional standards, the IRDA has mandated minimum educational qualifications for all agents, together with training and examination requirements. Through a government of India Notification dated 11 November 1998, the Insurance Ombudsman was created to address grievances of the insured customers and protect the interest of policyholders. Twelve Ombudsmen have been appointed across the country to expedite disposal of complaints. They have jurisdiction in respect of personal lines of insurance where the contract value does not exceed Rs 20 lakhs. The Ombudsman is bound to pass a judgment within three months from the receipt of the complaint. It should be noted that the system is monitored and operated through a governing body of Insurance Council comprising of representatives of insurance companies. The IRDA deals with other disputes that fall outside the Ombudsman’s jurisdiction.

1.1.4 Present Scenario of Indian Life Insurance Industry

Since opening up the sector, the life insurance market in India witnessed dynamic changes including the entry of a number of global life insurers that led to increased competition in the Indian Life insurance market. Intense competition has also forced the life insurance industry to improve its underwriting and risk management abilities that has greatly benefitted the policyholders. Moreover, customers today are more conscious of their need of risk mitigation and greater security for the future, such as retirement plans. Life insurance companies have
been quick to recognize the larger need for structured retirement plans and have leveraged their abilities of long-term fund management towards building this segment.

### 1.1.4.1 Number of Private Players

As of September 30, 2012, there were 23 players in the sector (1 public and 22 private). The Life Insurance Corporation of India (LIC) is the only public sector player, and held almost 65% of the market share in FY10 (based on first-year premiums). ICICI Prudential, Bajaj Allianz and SBI Life collectively account for approximately 50% of the market share in the private life insurance segment. To tap this opportunity, banks have also started entering alliances with insurance companies to develop/underwrite insurance products rather than merely distribute them.

<table>
<thead>
<tr>
<th>Type of business</th>
<th>Public Sector</th>
<th>Private Sector</th>
<th>Total</th>
</tr>
</thead>
<tbody>
<tr>
<td>Life Insurance</td>
<td>1</td>
<td>23</td>
<td>24</td>
</tr>
<tr>
<td>Genera Insurance</td>
<td>6</td>
<td>21</td>
<td>27</td>
</tr>
<tr>
<td>Reinsurance</td>
<td>1</td>
<td>0</td>
<td>1</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td><strong>8</strong></td>
<td><strong>44</strong></td>
<td><strong>52</strong></td>
</tr>
</tbody>
</table>

**Source:** Insurance Regulatory and Development Authority of India (IRDA)

* Includes specialized insurance companies- ECGC and AIC.
** Includes four Standalone Health Insurance Companies

The total number of offices of life insurers were 11,167 including 3455 of LIC and 7712 of Private Sector by March31, 2012. Number of offices of insurers has also increased dramatically during the year FY08 from 5,373 at the beginning of the year to 8,913 by the end of the year, showing a growth of over 65%. A major portion of this expansion was in the private sector whose branch offices more than doubled from 3,072 to 6,391.
1.1.4.2 Innovative Distribution Channels

Innovation in distribution channels has also played a major role in pushing products into markets that were initially uncovered. All the companies have indulged themselves in appointing and training advisors for better productivity. Public sector giant SBI Life has developed an interactive website and a toll free helpline to match the marketing might of private players. These changes have led to marked improvement in the response and turnaround time in policy documentation, first policy receipt, final maturity payment and settlement of claims by companies. The companies have also discovered innovative ways to better the services provided by them by outsourcing some of the processes and services.

1.1.4.3 Competition

- Premium Collected

Life insurance industry recorded a premium income of 2,87,072 crore during 2011-12 as against 2,91,639 crore in the previous financial year 2010-11, registering a negative growth of 1.57 per cent. While private sector insurers posted
4.52 per cent decline (11.08 per cent growth in previous year) in their premium income, LIC recorded 0.29 per cent decline (9.35 per cent growth in previous year).

While renewal premium accounted for 60.31 per cent (56.66 per cent in 2010-11) of the total premium received by the life insurers, first year premium contributed the remaining 39.69 per cent (43.34 per cent in 2010-11). During 2011-12, the growth in renewal premium was 4.77 per cent (6.23 per cent in 2010-11). First year premium has registered a decline of 9.85 per cent in comparison to a growth of 15.02 per cent during 2010-11.

Further bifurcation of the first year premium indicates that single premium income received by the life insurers recorded negative growth of 17.21 per cent during 2011-12 (26.99 per cent growth in 2010-11). Single premium products continue to play a major role for LIC as they contributed 20.54 per cent of LIC’s total premium income (24.94 per cent in 2010-11). In comparison, the contribution of single premium income in total premium income is 11.93 per cent for private insurance companies during 2011-12 (13.28 per cent in 2010-11).

The regular premium registered a negative growth rate of 2.67 per cent in 2011-12, as against 5.32 per cent growth in 2010-11 with the private insurers witnessing negative growth of 20.37 per cent (previous year negative growth of 19.84 per cent). The LIC continued to report high growth in the regular premium. The same stood at 10.83 per cent in 2011-12 (38.50 per cent in 2010-11).

Unit-linked products (ULIPs) witnessed 36.12 per cent decline in premium income from 1,09,036 crore in 2010-11 to 69,650 crore in 2011-12. On the other hand, the growth in premium income of traditional products was at 19.07 per cent, with premium income increasing to 2,17,422 crore as against 1,82,603 crore in 2010-11. Accordingly, the share of unit-linked products in total premium considerably declined to 24.26 per cent in 2011-12 as against 37.38 per cent in 2010-11.
### Table 1.4
**Premium Underwritten: Life Insurers**

(Rs. crore)

<table>
<thead>
<tr>
<th>Insurer</th>
<th>2010-11</th>
<th>2011-12</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td><strong>Regular Premium [1]</strong></td>
<td></td>
</tr>
<tr>
<td>LIC</td>
<td>36265.36 (38.50)</td>
<td>40194.54 (10.83)</td>
</tr>
<tr>
<td>Private Sector</td>
<td>27679.83 (-19.84)</td>
<td>22040.78 (-20.37)</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td><strong>63945.18 (5.32)</strong></td>
<td><strong>62235.32 (-2.67)</strong></td>
</tr>
<tr>
<td></td>
<td><strong>Single Premium [2]</strong></td>
<td></td>
</tr>
<tr>
<td>LIC</td>
<td>50746.99 (11.93)</td>
<td>41667.71 (17.89)</td>
</tr>
<tr>
<td>Private Sector</td>
<td>11706.01 (204.66)</td>
<td>10039.14 (-14.24)</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td><strong>62453.00 (26.99)</strong></td>
<td><strong>51706.85 (-9.85)</strong></td>
</tr>
<tr>
<td></td>
<td><strong>First Year Premium [3 = (1+2)]</strong></td>
<td></td>
</tr>
<tr>
<td>LIC</td>
<td>87012.35 (21.66)</td>
<td>81862.25 (-5.92)</td>
</tr>
<tr>
<td>Private Sector</td>
<td>39385.84 (2.64)</td>
<td>32079.92 (-18.55)</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td><strong>126398.18 (15.02)</strong></td>
<td><strong>113942.17 (-9.85)</strong></td>
</tr>
<tr>
<td></td>
<td><strong>Renewal Premium [4]</strong></td>
<td></td>
</tr>
<tr>
<td>LIC</td>
<td>116461.05 (1.66)</td>
<td>121027.03 (3.92)</td>
</tr>
<tr>
<td>Private Sector</td>
<td>48779.40 (18.98)</td>
<td>52102.91 (6.81)</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td><strong>165240.45 (6.23)</strong></td>
<td><strong>173129.94 (4.77)</strong></td>
</tr>
<tr>
<td></td>
<td><strong>Total Premium [5 = (3+4) = (1+2+4)]</strong></td>
<td></td>
</tr>
<tr>
<td>LIC</td>
<td>203473.40 (9.35)</td>
<td>202889.28 (-0.29)</td>
</tr>
<tr>
<td>Private Sector</td>
<td>88165.24 (11.08)</td>
<td></td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td><strong>291638.63 (9.87)</strong></td>
<td><strong>287072.11 (-1.57)</strong></td>
</tr>
</tbody>
</table>

**Note:** Figures in Brackets indicate the growth (in per cent) over the previous year.

**Source:** Insurance Regulatory and Development Authority of India (IRDA)
The life insurers underwrote new business of 19,451 crore during the first quarter in the current financial year 2012-13 as against 18,283 crore in the corresponding period of 2011-12, recording a growth of 6.39 per cent. Of the new business premium underwritten, LIC accounted for 14,451 crore (74.29 per cent market share) and the private insurers accounted for `5,000 crore (25.71 per cent market share). The market share of these insurers was 72.98 per cent and 27.02 per cent respectively in the corresponding period of 2011-12. The life insurance industry procured premium of 1,513 crore in ULIPs for the first quarter of 2012-13 as against 4,897 crore in the first quarter of 2011-12, a decline of 69.10 per cent. The industry procured premium of 17,938 crore in traditional business for the quarter ended June 2012 as against 13,386 crore for the quarter ended June, 2011 exhibiting a growth of 34.01 per cent.

* Market Share

On the basis of total premium income, the market share of LIC increased marginally from 69.77 per cent in 2010-11 to 70.68 per cent in 2011-12. Accordingly, the market share of private insurers has gone down marginally from 30.23 per cent in 2010-11 to 29.32 percent in 2011-12.

The market share of private insurers in first year premium was 28.15 per cent in 2011-12 (31.16 percent in 2010-11). The same for LIC was 71.85 per cent (68.84 per cent in 2010-11). Similarly, in renewal premium, LIC continued to have a higher share at 69.91 per cent (70.48 per cent in 2010-11) when compared to 30.09 per cent (29.52 per cent in 2010-11) share of private insurers.

During 2011-12, life insurers issued 442 lakh new policies, out of which LIC issued 358 lakh policies (80.90 per cent of total policies issued) and the private life insurers issued 84 lakh policies (19.10 per cent).

While LIC suffered a decline of 3.47 per cent (4.70 per cent decline in 2010-11) in the number of new policies issued against the previous year, the private sector insurers continued the previous year’s experience of significant
Table 1.5
Market Share: Life Insurers

<table>
<thead>
<tr>
<th>Insurer</th>
<th>2010-11</th>
<th>2011-12</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>Regular Premium</td>
<td></td>
</tr>
<tr>
<td>LIC</td>
<td>56.71</td>
<td>64.58</td>
</tr>
<tr>
<td>Private Sector</td>
<td>43.29</td>
<td>35.42</td>
</tr>
<tr>
<td>Total</td>
<td>100.00</td>
<td>100.00</td>
</tr>
<tr>
<td></td>
<td>First Year Premium</td>
<td></td>
</tr>
<tr>
<td>LIC</td>
<td>81.26</td>
<td>80.58</td>
</tr>
<tr>
<td>Private Sector</td>
<td>18.74</td>
<td>19.42</td>
</tr>
<tr>
<td>Total</td>
<td>100.00</td>
<td>100.00</td>
</tr>
<tr>
<td></td>
<td>Total Premium</td>
<td></td>
</tr>
<tr>
<td>LIC</td>
<td>68.84</td>
<td>71.85</td>
</tr>
<tr>
<td>Private Sector</td>
<td>31.16</td>
<td>28.15</td>
</tr>
<tr>
<td>Total</td>
<td>100.00</td>
<td>100.00</td>
</tr>
<tr>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>LIC</td>
<td>70.48</td>
<td>69.91</td>
</tr>
<tr>
<td>Private Sector</td>
<td>29.50</td>
<td>30.09</td>
</tr>
<tr>
<td>Total</td>
<td>100.00</td>
<td>100.00</td>
</tr>
<tr>
<td></td>
<td>Total Premium</td>
<td></td>
</tr>
<tr>
<td>LIC</td>
<td>69.77</td>
<td>70.68</td>
</tr>
<tr>
<td>Private Sector</td>
<td>30.23</td>
<td>29.32</td>
</tr>
<tr>
<td>Total</td>
<td>100.00</td>
<td>100.00</td>
</tr>
</tbody>
</table>

Source: Insurance Regulatory and Development Authority of India (IRDA)

decline and reported a dip of 24.04 per cent (22.61 per cent decline in 2010-11) in the number of new policies issued. Overall, the industry witnessed 8.22 per cent decline (9.53 per cent decrease in 2010-11) in the number of new policies issued.
Table 1.6  
**New Policies Issued: Life Insurers**  

<table>
<thead>
<tr>
<th>Insurer</th>
<th>2010-11</th>
<th>2011-12</th>
</tr>
</thead>
<tbody>
<tr>
<td>LIC</td>
<td>370.38 (-4.70)</td>
<td>357.51 (-3.47)</td>
</tr>
<tr>
<td>Private Sector</td>
<td>111.14 (-22.61)</td>
<td>84.42 (-24.04)</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td><strong>481.52 (-9.53)</strong></td>
<td><strong>441.93 (-8.22)</strong></td>
</tr>
</tbody>
</table>

Figures in brackets indicate growth over previous year (in per cent).  
**Source:** Insurance Regulatory and Development Authority of India (IRDA)

1.1.4.4 Insurance Penetration

In life insurance business, India ranked 9th among the 156 countries, for which data are published by Swiss Re. During 2009, the life insurance premium in India grew by 10.1 per cent (inflation adjusted). However, during the same period, the global life insurance premium had contracted by 2 per cent. The share of Indian life insurance sector in global market was 2.45 per cent during 2009, as against 1.98 per cent in 2008.

Expansion of business by private life insurance players in uncovered market has been the main reason behind India’s increased insurance penetration. Through the development and effective use of new distribution channels (e.g. bancassurance), Life insurance players have been able to target previously uncovered markets. This in turn has contributed to an increase in the level of penetration. Total Life insurance penetration (premiums as a percentage of GDP) in India was 1.5% in 1990 and was not much higher by the middle of the decade. However, Life insurance penetration in India improved since liberalization in 2000. From 2.15% in 2001, Insurance penetration rose to 2.59% in 2002 before declining to 2.26% in 2003. Life insurance penetration rose yet again to 2.53% in 2004 and remained at the same level in the subsequent year. A milestone occurred in 2006 when India’s insurance penetration nearly doubled to 4.10% before declining marginally to 4.00% in 2007 and then further rising to a level of 4.60% in 2009. It was measure 4.4 % in 2010 and the decline to 3.4 in 2011. However,
when compared to other countries, the life insurance market in India is significantly underpenetrated. India continues to remain way behind (as on 2011) industrialized nations like UK (8.7%), Switzerland (5.5%), France (6.2%), South Africa (10.2%) and Japan (8.8%).

Table 1.7
Insurance Penetration and Density in India

<table>
<thead>
<tr>
<th>Year</th>
<th>Life</th>
<th>Non-Life</th>
<th>Industry</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>Density (USD)</td>
<td>Penetration (percentage)</td>
<td>Density (USD)</td>
</tr>
<tr>
<td>2001</td>
<td>9.1</td>
<td>2.15</td>
<td>2.4</td>
</tr>
<tr>
<td>2002</td>
<td>11.7</td>
<td>2.59</td>
<td>3.0</td>
</tr>
<tr>
<td>2003</td>
<td>12.9</td>
<td>2.26</td>
<td>3.5</td>
</tr>
<tr>
<td>2004</td>
<td>15.7</td>
<td>2.53</td>
<td>4.0</td>
</tr>
<tr>
<td>2005</td>
<td>18.3</td>
<td>2.53</td>
<td>4.4</td>
</tr>
<tr>
<td>2006</td>
<td>33.2</td>
<td>4.10</td>
<td>5.2</td>
</tr>
<tr>
<td>2007</td>
<td>40.4</td>
<td>4.00</td>
<td>6.2</td>
</tr>
<tr>
<td>2008</td>
<td>41.2</td>
<td>4.00</td>
<td>6.2</td>
</tr>
<tr>
<td>2009</td>
<td>47.7</td>
<td>4.60</td>
<td>6.7</td>
</tr>
<tr>
<td>2010</td>
<td>55.7</td>
<td>4.40</td>
<td>8.7</td>
</tr>
<tr>
<td>2011</td>
<td>49.0</td>
<td>3.40</td>
<td>10.0</td>
</tr>
</tbody>
</table>

1. Insurance density is measured as ratio of premium (in US Dollar) to total population.
2. Insurance penetration of measured as ratio of premium (in US Dollars) to GDP (in US Dollars).
3. The data of Insurance penetration is available with rounding off to one digit after decimal from 2006.

Source: Swiss Rs, Various Issues.

The level of penetration which is the measure of premiums as a percentage of a country’s GDP in life insurance has a strong positive correlation to income levels. India, with its huge middle class households, exhibits untapped potential for the insurance industry. Saturation of markets in many developed economies has made the Indian market even more attractive for global insurance majors. Thus
1.1.4.5 Insurance Density

Per capita income of consumers plays a vital role in determining the amount, an average consumer spends on insurance. By this measure, India is among the lowest-spending nations in the world in respect of purchasing insurance. However, spending on insurance is on a growth trajectory in India. India’s improving economic fundamentals was a key support factor for faster growth in per capita income in recent years, which translated into stronger demand and spending for and on insurance products. From spending a mere US$ 9.1 on insurance in 2001, spending rose consistently over the next six years to touch a high of US$ 40.4. In year 2010 it rose up to US$ 49 and US$ 55.7 in 2011. This level of spending 2011, while higher than its neighbors (Sri Lanka US$ 15, Pakistan US$ 4 and Bangladesh US$ 5), continues to remain far behind most industrial nations like the Switzerland (US$ 4,421), US (US$ 1,716), UK (US$ 3,347), Japan (US$ 4,138) and South Korea (US$ 1,615) and just behind China (US$ 99). One factor that has been slowing down the improvement of insurance density is India’s relatively high population growth rate, which has averaged 1.7% over the past ten years.
The Government of India liberalized the insurance sector in March 2000 with the passage of the Insurance Regulatory and Development Authority (IRDA) Bill, lifting all entry restrictions for private players and allowing foreign players to enter the market with some limits on direct foreign ownership. Under the current guidelines, there is a 26 percent equity cap for foreign partners in an insurance company. There is a proposal to increase this limit to 49 percent.

The opening up of the sector is likely to lead to a greater spread and deepening of insurance in India and this may also include restructuring and revitalizing of the public sector companies. In the private sector 12 life insurance and 8 general insurance companies have been registered. A host of private Insurance companies operating in both life and non-life segments have started selling their insurance policies since 2001.

1.1.5 Driving Factors of Indian Insurance Industry

Though, the economic growth in India is getting slow because poor signs of global economy, still Indian economy manage to grow at rate of 6.5% in year 2012. India is one of the biggest consumer base in the world and in case of life insurance services, insurance penetration and density both are at very low level and hence lies a great opportunity for the life insurance service providers. Also,
insurance funds constituted about 17.5% of the total gross financial savings of the households in present day. This has resulted in an increase in the share of insurance funds in the total household savings. The shift in the preferences towards insurance sector was mainly on account of the households preferring to invest in Unit Linked Insurance Products (ULIPs) of life insurers owing to a bullish trend in the stock market (returns of a part of ULIPs depend on the behavior of the stock market).

The growth of the economy has also led to significant asset creation both by individuals and the corporate sector. This created the need and the market for life insurance products. Moreover, the significant growth witnessed by the manufacturing and services sector in the past years has also triggered demand for insurance products pertaining to infrastructure, property and healthcare.

1.1.5.1 Changing Demographic profile

Socio-economic changes in the economy also helped in generating demand for insurance. The emergence of nuclear families as the primary social unit in the economy antiquated the traditional protection available to the individual in a joint family. This has created the need for insurance. Besides this, India’s ever increasing working age population group is likely to push demand for life insurance in the future. According to the population commission the share of India’s working population (between the age group of 15-59 years) is projected to increase from 58.7% in 2001 to 63.38% in 2011. Such growth in the working population is likely to result in rising income levels, which in turn will improve India’s insurance density. When taken together along with the changing attitude of individuals towards life insurance, the future of life insurance looks very promising in India.

1.1.5.2 Product Innovation

Growth in the Life insurance industry has also been spurred by product innovation, vibrant distribution channels coupled with targeted publicity and promotional campaigns by the insurers. Over the last eight years, consumer awareness has improved and increased competition has brought more product innovation and better customer servicing. Innovations have come not only in the form of benefits attached to the products, but also in the delivery mechanism
through various marketing tie-ups both within the realm of financial services and outside. To reach out to the consumers, insurance companies today have widened their distribution channels by approaching prospective customers through agents, brokers and bancassurance. With Information Technology revolutionizing the financial sector, another channel has been made available for selling which is the internet. All these efforts have brought life insurance closer to the customer as well as made it more relevant.

1.1.5.3 Government Policies

During FY08, many policies regarding broadening and deepening of the financial markets, capital markets and bond markets were undertaken by the respective regulators. The government on its part has helped in this process by allowing changes in the legal framework. The policies undertaken in the financial markets will help the insurance companies in managing their assets in a prudent and profitable way. Insurance companies are now allowed to access the negotiated dealing system-order matching using the constituents’ subsidiary general ledger route. This will help the insurance companies in participating in the negotiated dealing system for parking their excess funds.

1.1.6 Challenges and Outlook of Indian Insurance Industry

While important steps have already been taken, there are still major hurdles to overcome if the market is to realize its full potential. To begin with, further liberalization in investment regulations on insurers to strike a proper balance between insurance solvency and investment flexibility could prove to be beneficial. Furthermore, the life insurance sectors would benefit from less invasive regulations. As far as the pricing structure goes, obsolete regulations on insurance prices should be replaced by risk-differentiated pricing structures.

1.1.6.1 Rural Market still under penetrated

With the majority of the population still residing in rural areas, the development of rural insurance will be critical in driving overall insurance market development over the longer term. There is a need to create a broader awareness about life insurance in all geographic areas in India through specific collective campaigns. This is an important precondition to developing insurance and
increasing penetration. Awareness is lacking not only in rural areas, small towns and among the less educated persons. Even in urban areas, vast segments of population seem to have erroneous perceptions or impression which needs to be corrected.

1.1.6.2 India’s Pension Market

India has a very large workforce most of whom do not have any old age security cover. Pension policy in India has always been provided through employer and employee as result of which only the organized sector has received pension coverage. However, the unorganized sector in which the majority of the population works remain uncovered. In last decade a marked shift in pension policy in India was witnessed which resulted in the introduction of a New Pension System (NPS). The NPS has been mainly designed to fill the gap of old age income security to the unorganized sector. Since its inception in Dec 22, 2003 about 100,000 Central Government employees (excluding employees of autonomous organizations) are already covered under the new pension system and contribute 10% of their salary and dearness allowance towards pension with a matching contribution from the government. There are however, still many changes that need to be introduced in India’s pension sector. Pension system in other developed countries could prove to be useful in improving the shortcomings of India’s pension sector. Private players have already tapped this market in a big way. Moreover, it will be up to the Government to take more initiatives to tap the unorganized sector.

1.1.6.3 Outlook Remains Positive

The outlook remains positive for life insurance in the medium term. As economic environment and capital markets are expected to stabilize in medium term, life insurance is projected to resume its strong performance. In India, the potential for significant market expansion in tandem with higher disposable income and a relatively young population will drive sales for both savings and protection products in the years to come. Besides, the life insurance sector needs to continue on the path of innovation by designing new products suitable for the market and make use of innovative distribution channels to reach a broader range of the population. The demand for Life insurance will be fuelled by the
simultaneous growth in the per capita income of the population. As long as India continues to improve its economic fundamentals, the per capita income will increase which in turn will create demand for Life insurance products.

Given India’s strong economic fundamentals, there is good reason to expect that the growth momentum in the life insurance sector can be sustained. In fact, there is huge untapped potential in various segments of the market. Also, insurance to mitigate the negative financial consequences of adverse events (such as natural disasters) is still underdeveloped. Major changes in both national economic policies and insurance regulations will reveal the prospects for the life insurance segment going forward.

But at the same time, one can’t manage to lose focus on customer, it is not judicious to overlook the interest of consumers even if there is more than enough market is untapped. Marketers must realize that these days consumer is a presumer, he comes to buy insurance services with certain set of expectations and it is unwise for every service provider to annoy the consumer by not meeting these expectations. Luring a consumer to consume services for the first time is more costly affair than maintaining him but maintaining a consumer is surely a most creative and challenging affair of the marketers of today.

Also it has been propounded in many researches that customer satisfaction and customer loyalty have strong bond with service quality and it is very much true in the case of insurance and all other services. Providing high service quality is considered important where services are of higher intangibility, higher inconsistency and higher inseparability. Service having these characteristics is called ‘credence services’ that is, services that are difficult for customer to evaluate even after purchase and use. Many professional and financial services come under this category and insurance is one of them. Acknowledging these complexities of services, it is quite important to create a better understanding of construct of service quality and its relevance in improving services in greater detail. Following portion is devoted for the same.

1.2 Service Quality – A Conceptual Framework

Although, service quality is an extensively researched construct but its discussion is not straightforward. The concept is synthetic and any attempt to discuss it involves the discussion of its components, i.e. service and quality.
1.2.1 Service

Services are processes of activities aiming to provide solutions to customers’ problems, with most of other characteristics of services are consequences of the process nature of service. (Gronroos, 2000; 2001).

The majority of services are first sold and then simultaneously produced and consumed, very often requiring the physical presence of customers (Berry, 1999). The “inseparability” of production and consumption, prevents services from being subject to a predetermined quality control process or marketed in traditional ways (Gronroos, 2000).

Oftenly, the services are a result of employee-customer encounters (Drew-Rosen et al., 2003), services are “heterogeneous” as the performance of a human being is not stable. Services are heterogeneous even when delivered through automated channels due to varying customer attitudes towards interacting with “machines”.

Although certain tangible elements may be included, the essence of services is “intangibility” (Zeithaml et al., 1990) that leads customers to perceive services in subjective and often highly abstract ways (Gronroos, 2000). Services are perceived as bundles containing the “core service” and the “service experience”, i.e. “what” the service provides and “how” it is delivered, depending on front-line employees’ interactions with customers, the organization and its facilities. A number of “peripheral” services facilitate the offering of the core service (Gronroos, 2000).

Fitzsimmons and Fitzsimmons (2001) define a service bundle as a package of goods and services consisting of supporting facilities, facilitating goods, and explicit services.

1.2.2 Quality

The American Society for Quality (www.asq.org/), in line with Feigenbaum (1983), views quality as “a subjective term for which each person has his or her own definition” while the international standard ISO 8402 (1994) defines quality as “the totality of characteristics of an entity (product, service, process,
activity, system, organization, person) that bear on its ability to satisfy stated and/or implied needs”.

1.2.3 Service Quality

The mission of defining quality is more complex in case of services. Services are intangible; this intangibility implies that the criteria for a flawless service are not only less specific than the criteria for a defect-free tangible good (Berry and Parasuraman, 1991) but also exceptionally composite and not easily identifiable. Marketers view service quality as the level needed to make the service acceptable in the market place and try to define service quality in advance.

On the other hand, customers make “during” and “after use” evaluations (Marwa, 2005) comparing the service delivered to them with their previous experiences (Gronroos, 1982, 1984; Lehtinen and Lehtinen, 1982; Lewis and Booms, 1983). The result of this comparison is perceived service quality (Gro”nroos, 1982; 1984; Takeuchi and Quelch, 1983; Parasuraman et al., 1985; 1988). Hence, services must conform to the wishes of customers rather than to any predetermined set of specifications (Berry et al., 1988). As Lewis (1993) put it, “there is no other fact or reality about service quality but what customers perceive about a service”.

1.2.4 Service Quality Gap Model

Today’s consumer has become increasingly demanding. They not only want high quality products but they also expect high quality customer service. Even manufactured products such as cars, mobile phones and computers cannot gain a strategic competitive advantage through the physical products alone. From a consumer’s point of view, customer service is considered very much part of the product.

Delivering superior value to the customer is an ongoing concern of Product Managers. This not only includes the actual physical product but customer service as well. Products that do not offer good quality customer service that meets the expectations of consumers are difficult to sustain in a competitive market.
SERVQUAL (service quality gap model) is a gap method in service quality measurement, a tool that can be used by Product Manager across all industries. The aim of this model is to:

- Identify the gaps between customer expectations and the actual services provided at different stages of service delivery
- Close the gap and improve the customer service

This model developed by Parasuraman, Zeithalm and Berry in 1985 identifies five different gaps:

**The Knowledge Gap (Gap 1)**

The Gap between Consumer Expectations and Management Perceptions

The knowledge gap is the difference between the customer’s expectations of the service provided and the company’s provision of the service. In this case,
managers are not aware or have not correctly interpreted the customer’s expectations in relation to the company’s services or products. If a knowledge gap exists, it may mean companies are trying to meet wrong or non-existing consumer needs. In a customer-orientated business, it is important to have a clear understanding of the consumer’s need for service. To close the gap between the consumer’s expectations for service and management’s perceptions of service delivery will require comprehensive market research.

**The Policy Gap (Gap 2)**

The Gap between Management Perceptions and Service Quality Specification

According to Kasper et al, this gap reflects management’s incorrect translation of the service policy into rules and guidelines for employees. Some companies experience difficulties translating consumer expectations into specific service quality delivery. This can include poor service design, failure to maintain and continually update their provision of good customer service or simply a lack of standardization. This gap may see consumers seek a similar product with better service elsewhere.

**The Delivery Gap (Gap 3)**

The Gap between Service Quality Specification and Service Delivery

This gap exposes the weakness in employee performance. Organizations with a Delivery Gap may specify the service required to support consumers but have subsequently failed to train their employees, put good processes and guidelines in action. As a result, employees are ill equipped to manage consumer’s needs. Some of the problems experienced if there is a delivery gap are:

- Employees lack of product knowledge and have difficulty managing customer questions and issues
- Organizations have poor human resource policies
- Lack of cohesive teams and the inability to deliver

**The Communication Gap (Gap 4)**

The Gap between Service Delivery and External Communications

In some cases, promises made by companies through advertising media and
communication raise customer expectations. When over-promising in advertising does not match the actual service delivery, it creates a communication gap. Consumers are disappointed because the promised service does not match the expected service and consequently may seek alternative product sources.

**The Customer Gap (Gap 5)**

The Gap between Customer Expectations and Customer Perceptions

The customer gap is the difference between customer expectations and customer perceptions. Customer expectations is what the customer expects according to available resources and is influenced by cultural background, family lifestyle, personality, demographics, advertising, experience with similar products and information available online. Customer perceptions are totally subjective and are based on the customer’s interaction with the product or service. Perceptions are derived from the customer’s satisfaction of the specific product or service and the quality of service delivery. The customer gap is the most important gap and in an ideal world the customer’s expectations would be almost identical to the customer’s perception.

In a customer orientated strategy, delivering a quality service for a specific product should be based on a clear understanding of the target market. Understanding customer needs and knowing customer expectations could be the best way to close the gap.

**1.2.5 Service quality assessment**

Following the definition of perceived service quality as the result of comparing actual service delivery with prior experience (Gro¨nroos, 1982; 1984; Lehtinen and Lehtinen, 1982; Lewis and Booms, 1983; Parasuraman et al., 1985), researchers have generally followed two main theoretical perspectives. The Nordic (European) (Gro¨nroos, 1982, 1984) perspective views service quality as having two dimensions: “technical” and “functional” quality, reflecting the service outcome and the service process respectively. Customers’ perceptions of these two dimensions are filtered through the service firm’s image. The American model defines service quality as the discrepancy between expected and perceived service through five core components:
Reliability – performing the promised service dependably and accurately;
Responsiveness – helping customers and providing prompt service;
Assurance – inspiring trust and confidence;
Empathy – providing caring, individualized attention to customers; and
Tangibles – the tangible elements of service (Parasuraman et al., 1988).

Although the American model dominates the literature there is no unanimity between researchers on which of the two, or some other, better reflects perceived service quality (Brady and Cronin, 2001).

Another service quality model which was used by Sureshchandar et al. (2001) states that the customer’s perceived quality depends upon five factors:

1. Core service.
2. Human elements of service delivery.
4. Tangibles of services.
5. 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.

Acknowledging the importance of the model used by Sureshchander et. al (2001), present study has also used the same model with certain sub dimensions. The sub dimensions which were selected after a thorough study and critical evaluation of service factors regarding insurance sector in India are given below:

**Dimension 1 Core Product**

1. Wider range of plans for all kind of life insurance needs
2. Innovative and customer focused insurance plans
3. Customized insurance Plans (Optional- riders, fund investment, withdrawals etc.)
4. Terms and conditions are simple and realistic
5. Promises made regarding maturity and other benefits are fulfilled
6. Getting claims of unfortunate event i.e. death is a comfortable experience
7. Insurance plans are designed as per laws and norms avoiding failure or closure of plan in future

**Dimension 2 Human Element in Service Delivery**

1. Employees provide services right the first time
2. Employees provide services as per promised schedule
3. Employees are prompt, polite and good in interpersonal skills
4. Employees possess good technical and professional skills
5. Employees actively look for customer reactions and feedback
6. Employees instill comfort and confidence in customers making them feel safe about the money they are investing
7. Employees entertain customer by giving individual attention and care avoiding other being hurt
8. Employees are capable of handling customer grievances
9. Employees have healthy professional relationship among themselves and customers
Dimension 3 Systemization of Services

1. Procedure are standardized and simplified
2. Procedures are free from unnecessary delays, bottlenecks and bureaucracy
3. Procedures are full proof
4. Networking of operation and branches which provides any city operations
5. Tie-ups with banks and other financial institutions for effective delivery of service
6. Websites are updated, useful and user friendly
7. Customer care facilities are effective and efficient

Dimension 4 Tangibles of Service

1. Good ambiance (e.g. right temperature, ventilation, cleanliness and low noise)
2. Physical layouts and furnishings are appealing and comfortable
3. Things are at right places (e.g. electronic devices, computers, working places of employees etc.)
4. Display of all promotional material at visually appealing places (e.g. information boards, pamphlets etc.)
5. Employees wear a neat and clean professional appearance

Dimension 5 Social Responsibility

1. Treat customers equally irrespective of their customer value, social and religious statuses
2. Provide value of money services
3. Code of conduct is morally, ethically and socially good
4. Support noble causes and help in preserving natural resources
5. Branches at convenient places to benefit all areas and sections of society
6. A good corporate citizens and plays role in improving economy of the country
1.2.6 Service Quality Assessment Instruments

Several measurement instruments have been developed following the debate on disconfirmation (Gro"noroo, 1982; 1984; Parasuraman et al., 1985) vs. performance only measurement of service quality (Cronin and Taylor, 1992) with a number of researchers defending the main stream disconfirmation measurement (SERVQUAL) and others disputing it (mostly in favor of SERRVPERF) on theoretical and operational grounds (Buttle, 1996). However, the research community is unanimous in that service quality is a multidimensional phenomenon that requires multi-item measures.

Acknowledging these facts, in present study, SERVQUAL with seven point likert scale is used in collecting the responses and to measure the service quality in Indian insurance industry.

1.3 Profile of Life Insurance Companies selected for the study

On the basis of quantum of business, market share and entry time in selected geographical region following five insurance companies were selected for the study. These are:

1. Life Insurance Corporation of India (LIC);
2. Bajaj Allianz Life Insurance Company Limited (BALI);
3. Birla Sun Life Insurance Company Limited (BSLI);
4. HDFC Standard Life Insurance Company Limited (HDFCSLI); and
5. ICICI Prudential Life Insurance Company Limited (ICICIPLI)

A brief profile, each of the above insurance companies is as follows:

1.3.1 Life Insurance Corporation of India (LIC)

The story of insurance is probably as old as the story of mankind. The same instinct that prompts modern businessmen today to secure themselves against loss and disaster existed in primitive men also. They too sought to avert the evil consequences of fire and flood and loss of life and were willing to make some sort of sacrifice in order to achieve security. Though the concept of insurance is largely a development of the recent past, particularly after the industrial era – past few centuries – yet its beginnings date back almost 6000 years.
Life Insurance in its modern form came to India from England in the year 1818. Oriental Life Insurance Company started by Europeans in Calcutta was the first life insurance company on Indian Soil. All the insurance companies established during that period were brought up with the purpose of looking after the needs of European community and Indian natives were not being insured by these companies. However, later with the efforts of eminent people like Babu Muttyalal Seal, the foreign life insurance companies started insuring Indian lives. But Indian lives were being treated as sub-standard lives and heavy extra premiums were being charged on them.

Bombay Mutual Life Assurance Society heralded the birth of first Indian life insurance company in the year 1870, and covered Indian lives at normal rates. Starting as Indian enterprise with highly patriotic motives, insurance companies came into existence to carry the message of insurance and social security through insurance to various sectors of society. Bharat Insurance Company (1896) was also one of such companies inspired by nationalism. The Swadeshi movement of 1905-1907 gave rise to more insurance companies. The United India in Madras, National Indian and National Insurance in Calcutta and the Co-operative Assurance at Lahore were established in 1906. In 1907, Hindustan Co-operative Insurance Company took its birth in one of the rooms of the Jorasanko, house of the great poet Rabindranath Tagore, in Calcutta. The Indian Mercantile, General Assurance and Swadeshi Life (later Bombay Life) were some of the companies established during the same period.

Prior to 1912 India had no legislation to regulate insurance business. In the year 1912, the Life Insurance Companies Act, and the Provident Fund Act were passed. The Life Insurance Companies Act, 1912 made it necessary that the premium rate tables and periodical valuations of companies should be certified by an actuary. But the Act discriminated between foreign and Indian companies on many accounts, putting the Indian companies at a disadvantage.

The first two decades of the twentieth century saw lot of growth in insurance business. From 44 companies with total business-in-force as Rs.22.44 crore, it rose to 176 companies with total business-in-force as Rs.298 crore in
1938. During the mushrooming of insurance companies many financially unsound concerns were also floated which failed miserably. The Insurance Act 1938 was the first legislation governing not only life insurance but also non-life insurance to provide strict state control over insurance business. The demand for nationalization of life insurance industry was made repeatedly in the past but it gathered momentum in 1944 when a bill to amend the Life Insurance Act 1938 was introduced in the Legislative Assembly.

However, it was much later on the 19th of January, 1956, that life insurance in India was nationalized. About 154 Indian insurance companies, 16 non-Indian companies and 75 provident were operating in India at the time of nationalization. Nationalization was accomplished in two stages; initially the management of the companies was taken over by means of an Ordinance, and later, the ownership too by means of a comprehensive bill. The Parliament of India passed the Life Insurance Corporation Act on the 19th of June 1956, and the Life Insurance Corporation of India was created on 1st September, 1956, with the objective of spreading life insurance much more widely and in particular to the rural areas with a view to reach all insurable persons in the country, providing them adequate financial cover at a reasonable cost.

LIC had 5 zonal offices, 33 divisional offices and 212 branch offices, apart from its corporate office in the year 1956. Since life insurance contracts are long term contracts and during the currency of the policy it requires a variety of services. A need was felt in the later years to expand the operations and a branch office, at each district headquarter. Re-organization of LIC took place and large numbers of new branch offices were opened. As a result of re-organization servicing functions were transferred to the branches, and branches were made accounting units. It worked wonders with the performance of the corporation. It may be seen that from about 200.00 crores of New Business in 1957 the corporation crossed 1000.00 crores only in the year 1969-70, and it took another 10 years for LIC to cross 2000.00 crore mark of new business. But with re-organization happening in the early eighties, by 1985-86 LIC had already crossed 7000.00 crore Sum Assured on new policies.
Today LIC functions with 2048 fully computerized branch offices, 109 divisional offices, 8 zonal offices, 992 satellite offices and the corporate office. LIC’s Wide Area Network covers 109 divisional offices and connects all the branches through a Metro Area Network. LIC has tied up with some Banks and Service providers to offer on-line premium collection facility in selected cities. LIC’s ECS and ATM premium payment facility is an addition to customer convenience. Apart from on-line Kiosks and IVRS, Info Centres have been commissioned at Mumbai, Ahmedabad, Bangalore, Chennai, Hyderabad, Kolkata, New Delhi, Pune and many other cities. With a vision of providing easy access to its policyholders, LIC has launched its SATELLITE SAMPARK offices. The satellite offices are smaller, leaner and closer to the customer. The digitalized records of the satellite offices will facilitate anywhere servicing and many other conveniences in the future.

LIC continues to be the dominant life insurer even in the liberalized scenario of Indian insurance and is moving fast on a new growth trajectory surpassing its own past records. LIC has issued over one crore policies during the current year. It has crossed the milestone of issuing 1,01,32,955 new policies by 15th Oct, 2005, posting a healthy growth rate of 16.67% over the corresponding period of the previous year.

From then to now, LIC has crossed many milestones and has set unprecedented performance records in various aspects of life insurance business. The same motives which inspired our forefathers to bring insurance into existence in this country inspire us at LIC to take this message of protection to light the lamps of security in as many homes as possible and to help the people in providing security to their families.

Though, on the basis of total premium of 20,289 crore including first year premium of 81,862 crore, the market share of LIC increased marginally from 69.77 per cent in 2010-11 to 70.68 per cent in 2011-12. Accordingly, the market share of private insurers has gone down marginally from 30.23 per cent in 2010-11 to 29.32 percent in 2011-12. Still, the oldest player in the Indian insurance market still continues to dominate the market scenario of Indian insurance market.
The market share of private insurers in first year premium was 28.15 per cent in 2011-12 (31.16 percent in 2010-11). The same for LIC was 71.85 per cent (68.84 per cent in 2010-11). Similarly, in renewal premium, LIC continued to have a higher share at 69.91 per cent (70.48 per cent in 2010-11) when compared to 30.09 per cent (29.52 per cent in 2010-11) share of private insurers.

During 2011-12, life insurers issued 442 lakh new policies, out of which LIC issued 358 lakh policies (80.90 per cent of total policies issued) and the private life insurers issued 84 lakh policies (19.10 per cent).

While LIC suffered a decline of 3.47 per cent (4.70 per cent decline in 2010-11) in the number of new policies issued against the previous year, the private sector insurers continued the previous year’s experience of significant decline and reported a dip of 24.04 per cent (22.61 per cent decline in 2010-11) in the number of new policies issued. Overall, the industry witnessed 8.22 per cent decline (9.53 per cent decrease in 2010-11) in the number of new policies issued.

1.3.2 Bajaj Allianz Life Insurance Company Limited (BALI)

Bajaj Allianz Life Insurance is a union between Allianz SE, one of the largest Insurance Company and Bajaj Finserv. Allianz SE is a leading insurance conglomerate globally and one of the largest asset managers in the world, managing assets worth over a Trillion (Over INR. 55,00,000 crore). Allianz SE has over 119 years of financial experience and is present in over 70 countries around the world.

The company has started functioning in India on August 3.200, along with head office at Pune, it has 995 offices all over India. As on December 31, 2012, it has total assets of worth 40,248.08 crore under management, the solvency ratio and settlement ratio of the company are 631% and 92.01% respectively. In the financial year 2011-12, the company has collected total premium of 7,483.80 crore including first year premium of 2,717.31 crore.

At Bajaj Allianz Life Insurance, customer delight is guiding principle and business philosophy is to ensure excellent insurance and investment solutions by offering customized products, supported by the best technology.
1.3.3 Birla Sun Life Insurance Company Limited (BSLI)

Established in 2000, Birla Sun Life Insurance Company Limited (BSLI) is a joint venture between the Aditya Birla Group, a well known and trusted name globally amongst Indian conglomerates and Sun Life Financial Inc, leading international financial services organization from Canada. The local knowledge of the Aditya Birla Group combined with the domain expertise of Sun Life Financial Inc., offers a formidable protection for its customers' future.

With an experience of over 10 years, BSLI has contributed significantly to the growth and development of the life insurance industry in India and currently ranks amongst the top 6 private life insurance companies in the country.

Known for its innovation and creating industry benchmarks, BSLI has several firsts to its credit. It was the first Indian Insurance Company to introduce "Free Look Period" and the same was made mandatory by IRDA for all other life insurance companies. Additionally, BSLI pioneered the launch of Unit Linked Life Insurance plans amongst the private players in India. To establish credibility and further transparency, BSLI also enjoys the prestige to be the originator of practice to disclose portfolio on monthly basis. These category development initiatives have helped BSLI in being more close to its policy holders' expectations, which gets further accentuated by the complete bouquet of insurance products (viz. pure term plan, life stage products, health plan and retirement plan) that the company offers.

Add to this, there is an extensive reach through its network of 600 branches and 133,572 empanelled advisors. This impressive combination of domain expertise, product range, reach and ears on ground, helped BSLI cover more than 2.5 million lives since it commenced operations and establish a customer base spread across more than 1500 towns and cities in India. To ensure that our customers have an impeccable experience, BSLI has ensured that it has lowest outstanding claims ratio of 0.00% for FY 2011-12. Additionally, BSLI has the best Turn Around Time according to LOMA on all claims Parameters. Such services are well supported by sound financials that the Company has. The assets under management of BSLI stood at 21,062 crore as on March 31, 2012, while the company has a robust capital base of Rs. 2,450 crore. In FY, the company has
collected a total premium of 5,885.36 crore including first year premium of 1,926.17 crore.

1.3.4 HDFC Life Insurance Company Limited (HDFCSLI)

HDFC Life, one of India's leading private life insurance companies, offers a range of individual and group insurance solutions. It is a joint venture between Housing Development Finance Corporation Limited (HDFC), India's leading housing finance institution and Standard Life plc, the leading provider of financial services in the United Kingdom.

HDFC Ltd. holds 72.37% and Standard Life (Mauritius Holding) Ltd. holds 26.00% of equity in the joint venture, while the rest is held by others.

HDFC Life's product portfolio comprises solutions, which meet various customer needs such as Protection, Pension, Savings, Investment and Health. Customers have the added advantage of customizing the plans, by adding optional benefits called riders, at a nominal price. The company currently has 25 retail and 9 group products in its portfolio, along with 10 optional rider benefits catering to the savings, investment, protection and retirement needs of customers.

HDFC Life continues to have one of the widest reaches among new insurance companies with about 500 branches in India touching customers in over 900 cities and towns. The company has also established a liaison office in Dubai. HDFC Life has a strong presence in its existing markets with a strong base of Financial Consultants.

The assets under management of HDFCSLI stood at 32,254 crore as on March 31, 2012 and a solvency ratio of 188% for same period. In FY, it has collected a total premium of 10,202 crore including first year premium of 3,833.61 crore.

1.3.5 ICICI Prudential Life Insurance Company (ICIPLI)

ICICI Prudential Life Insurance Company is a joint venture between ICICI Bank, one of India's foremost financial services company and Prudential plc, a leading international financial services group headquartered in the United Kingdom. Total capital infusion stands at Rs. 47.80 billion, with ICICI Bank
holding a stake of 74% and Prudential plc holding 26%. It began our operations in December 2000 after receiving approval from Insurance Regulatory Development Authority (IRDA). Today, their nation-wide reach includes 1,900 branches (inclusive of 1,074 micro-offices), over 210,000 advisors; and 6 bancassurance partners. For three years in a row, ICICI Prudential has been voted as India's Most Trusted Private Life Insurer, by The Economic Times - AC Nielsen ORG Marg survey of 'Most Trusted Brands'.

ICICIPLI is competing very closely for the 1st place among private players in the Indian life insurance industry and ICICI Prudential Life's capital stands at Rs. 4,793 crore (as of June 30, 2012) with ICICI Bank and Prudential plc holding 74% and 26% stake respectively. For the period April 1, 2012 to June 30, 2012, the company has garnered total premium of Rs 2,385 crore and has underwritten over 13 million policies since inception. The company has assets held over Rs. 70,000 crore as on June 30, 2012.