Chapter – I
Introduction and Design of the Study

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CHAPTER - I

INTRODUCTION AND DESIGN OF THE STUDY

1.1. Introduction to Insurance

The business of insurance is related to the protection of the economic value of assets. Every asset has a value. The assets have been created through the efforts of the owner who expects to get value out of them, when unexpected events take place. The benefits may be in the form of compensation. Insurance is a mechanism that helps to reduce the effects of adverse situations and indemnity to the insured for any loss incurred. Insurance is a social device whereby the risks of individuals may be minimized and security is provided to them by the insurance companies either one time contribution or periodical contributions.

In India, Insurance is a flourishing industry, with several national and international players competing and growing at rapid rates. Thanks to reforms and the easing of policy regulations, the Indian Insurance sector has been allowed to flourish and as Indians become more familiar with different insurance products, this growth can only increase; the period from 2010 - 2015 projected to be the 'Golden Age' for the Indian Insurance industry. According to a Forrester survey, 88% of the Life insurance executives responding, identified agents as the primary channel of distribution.¹

¹ Forrester Research "Reinventing Life Insurance Sales" by Todd Eyler with Ron Shevling, December 2001.
In the new economic reality of globalization, insurance companies face a dynamic global business environment. Radical changes are taking place owing to the internationalization of activities, the appearance of new risks, new types of covers to match with new risk situations, and unconventional and innovative ideas on customer service. Low growth rates in developed markets, changing customer needs, and the uncertain economic conditions in the developing world are exerting pressure on insurer’s resources while testing their ability to survive. The existing insurers are facing difficulties from non-traditional competitors who are entering the retail market with new approaches and through new channels.

The rapidly changing economic scene, the political attitude, social values and structures, cultural patterns, developments in Information Technology have transformed life styles in urban and rural areas. Their cumulative impact introduces elements of uncertainty in the possible developments in all sectors. At the same time Insurance industry does not remain untouched. Development in other parts of the world, which is witnessing sweeping changes in terms of convergence of financial and insurance markets through bank assurance, replacement of reinsurance contracts by financial instruments, sales of insurance through unconventional distribution channels and consolidation through merger and acquisitions will also have their impact on the Indian Insurance industry. Till the year 2000, the

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2 The rural areas are considered as the grass roots of the society for different reasons—nearly 70% of the population of our country lives areas, and the rural areas possess more natural resources and contribute to the development of economy.
Insurance industry was a government monopoly. It is now experiencing cut-throat competitions because, a number of players have entered into the Indian market in the form of joint ventures with Indian private sector partners. Consequently, Indian Insurance industry is closely integrated with world economy thereby making it imperative for insurance companies to operate outside national boundaries. During the long monopoly regime, the government attempted minor changes in the procedures without going into the root cause. The deregulation requires the comprehensive changes in the character and basic policies of the industry. Increasing market competition, heightened customer service expectations and the need to build competencies that stand out from the competition are some of the key challenges facing the insurance industry today. In response, insurance companies expand and enhance offers, and searching for new customer segments. They’re focusing on better servicing of existing customers by improving response times and improving the exchange of information. All of these efforts require that insurance companies do a better job of sharing information across business units that traditionally have been isolated.

Irrespective of large number of products which are in the insurance sectors, the success and failure finally remains in the hand of the customer who is undisputedly is the “king”. Customers’ satisfaction of insurance should aim at customer delight in the present context.

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3 Customers are too good to lose --------- Lets keep them happy! “Customer is the king”. “Earth is not the center of universe but revolves around the Sun”. –Copernicus.
1.2. Importance of the Study

Consumers’ satisfaction\(^4\) is the major focus of any marketer, whether marketing tangible products or intangible services. Life insurance, as a service and intangible in nature could be sold, only if the buyers are satisfied with the service. How far the customers are satisfied or to what extent customers can be delighted? These are the concerns of the insurance providers. By understanding the level of consumers satisfaction, the marketer can take measures, to retain the existing ones and to secure fresh customers. Hence this study in detail way, to find out the extent of satisfaction of policyholders of Life Insurance Corporation.

1.3. Statement of the Problem

Insurance sector, as a whole has contributed to the development of economy through generation of employment opportunities, acceleration of industrial growth etc. Although Life insurance Corporation of India has its own significance and place in the economy, it is not free from problems. Customer satisfaction is the true differentiator for the success of any business and is more so in insurance, where the products are perceived to be intangible. The three main aspects i.e. awareness level, service quality, satisfaction level of policyholders. Studying the policyholders behaviour and analyzing the existing marketing strategies of LIC of India with reference to various products offered by the company along with plans and policyholders satisfaction will be of social relevance in the present context.

\(^4\) “Marketing starts with the customer and ends the customer.” Peter Drucker.
1.4. Objectives of the Study

1. To study the demographic profile and awareness level of the respondents.
2. To understand the perception on Customer Relationship activities of LIC.
3. To identify the factors influencing policyholders satisfaction in LIC products.
4. To study the policyholders’ response towards marketing activities of LIC.
5. To identify the reasons to switch’ over from LIC to other companies.
6. To identify the satisfaction level between rural and urban customers.

1.5. Hypothesis

Based on the extensive literature review, the researcher proposes the following hypotheses to validate in the current research.

1. The factors influencing the selection of policy do not differ between rural and urban Policyholder.
2. The level of perception on Customer Representative Activities of LIC by annual income of the policyholder do not differ significantly.
3. The level of satisfaction between rural and urban customers do not differ significantly.

1.6. Scope and significance of the Study

The scope of the study lies in finding out the perception of customers in Thajavur Division. The study will be able to reveal the preferences, needs, satisfaction of the customers regarding the insurance services, It also help
insurance to know whether the existing products or services are offering really satisfying the customers’ needs. Through responses taken by 300 policyholders during a period of five years and highlighting the key areas which require some concern on part of LIC of India and improving upon which the company may strengthen its customer base. The present study, analysis, findings, suggestions and conclusion proposed by the present researcher will be of immense use for future researcher with similar studies in insurance market. High quality products with quality support services both in terms of international standards and competitiveness have entered into our country. Customer satisfaction has emerged as the key differentiator and defining attribute. The study is very much significant because it brings out the differences in various parameters like awareness level, service quality, satisfaction level of policyholders investment products of LIC and these are the main attributes to build up the customer perception and loyalty towards a company. The study is significant because it will help LIC to create a positive impact on its customers by working on its lacking qualities.

1.7. Research Methodology
1.7.1. Sampling design

The universe for the study is comprised of the policyholders of LIC in Thanjavur Division. The sample, policy holders were picked from sample frame, listed by the three branch managers and five agents. The sample was then grouped as urban and rural clusters. In each cluster, a sample of 150
policyholders were approached at the convenience of the researcher and the policyholders. The necessary data were collected from the 300 policyholders in all.

1.7.2. Area of the Study

The location selected is at Thanjavur Division in Tamilnadu.

1.7.3. Period of the Study

The study cover recent five years from 2005 to 2010 for analysis of secondary data relating to various aspects of marketing in Life Insurance Corporation of India. The primary data relating to the opinion of policyholders of LIC of India have been collected during the last year of the study 2009-2010.

1.7.4. Research design

The Researcher used convenience Descriptive Research Design to study the service quality, awareness level, satisfaction level and its key dimensions in life insurance sector. The questionnaire was divided into two sections. In the first part information related to different socio-economic and demographic criteria like income, age, profession, educational qualification, etc were collected. In the second part, respondents were asked to evaluate parameters on awareness level, satisfaction level, service quality, relevant to insurance product of LIC on a 5 point scale (“strongly agree” to “strongly disagree”).
Specially, these service quality aspects were identified by a detailed exploratory identification process. This includes two focus group discussions with 300 (Rural and urban) life insurance policyholders and eight in-depth interviews (three with branch managers and five with agents of LIC). Content analysis of focus group discussions and depth interviews were performed.

1.7.5. Data Collection

The study is mainly based on primary data collected from the field survey using pre-tested questionnaire. Secondary data were collected from various sources such as journals, magazines, publications and various websites including the official websites of IRDA & LIC. The published research reports and market studies also helped the researcher to probe into the problem.

1.7.6. Data Evaluation

The data collected were not simply accepted as it contained unnecessary information and over or under emphasized facts. Therefore only relevant data were included in the report, which helped in achieving the objectives of the project.

1.7.7. Statistical tools used

The collected data have been consolidated, tabulated and analyzed by using relevant statistical tools like, Standard Deviation, Factor Analysis, Correlation, One Way ANOVA, Perceptual Mapping and Henry Garret Ranking Method. The SPSS 16 package was utilized for analyzing the data.
The interpretation of the study is done by using tables, graphs and charts to give meaningful results

1.7.8. Pre-testing and Pilot Study

The questionnaire was given to some research experts for a critical view regard to its content, format and sequence and their feedback was incorporated. Then questionnaire was distributed to 20 respondents for pre-testing and pilot study was also conducted. Pre-testing was done to ensure reliability and validity of the questionnaire. It was done to check whether the instrument was correctly framed in an understandable manner. Taking into consideration the suggestions of the selected sample respondents, necessary modifications and changes were incorporated in the questionnaire after the pilot study. The respondents included in the pilot study were not included as samples for the final study.

1.7.9. Reliability

Reliability refers to the consistency or repeatability of the questionnaire for further analysis. The reliability of the questions was empirically examined in order to understand the coherence in the responses made. Reliability of the scales was ensured with Cronbach’s alpha coefficient. The coefficient varies between the values 0 to 1. If the score is closer to the value ‘1’, the internal consistency in the questionnaire is perfect and if the score is closer to ‘0’, there is poor internal consistency among the questions in the scale constructed.
Cronbach’s alpha measures, how well a set of items (or variables) measures a single one-dimensional latent construct.

Cronbach’s alpha can be written as a function of the number of test items and the average inter-correlation among the items. Cronbach’s $\alpha$ is defined as

$$\alpha = \frac{N}{N-1} \left(1 - \frac{\sum_{i=1}^{N} \sigma_{y_i}^2}{\sigma_X^2} \right)$$

where $N$ is the number of components (items or test lets), $\sigma_Y^2$ is the variance of the observed total test scores, and $\sigma_{y_i}^2$ is the variance of component.

Cronbach’s alpha can be interpreted as the percent of variance the observed scale that would explain hypothetical true scale composed of all possible items in the universe. Alternatively, it can be interpreted as the correlation of the observed scale with all possible other scales measuring the same thing and using the same number of items.

The Cronbach alpha score for the attributes that influences the LIC product and services was calculated to be 0.906 which is greater than 0.7 it can be seen that the factors chosen are quite good and relevant. Thus, the internal consistency of the questionnaire is good enough to proceed for further data collection and analysis. (The all reliability out puts is enclosed along with annexure Page No. ii, iii & iv).
1.7.10. Level of Significance

After examining the construct validity of the instrument, the data was collected, tabulated, processed and analyzed with reference to each of the specific objectives, with the help of appropriate tools of analysis. All tests were conducted for ten percent level, five percent level and one percent level of significance. Analysis made to meet the purpose of each of the specific objectives and test the hypotheses

1.8. Accessibility of Insurance

The easy accessibility of a insurance is the next most coveted Insurance. Benefits that the customers look for. The online access to insurance companies and their policies has made them more lucrative to the customers. Now-a-days, customers can search, compare and select their insurance coverage through the click of a mouse from their own residence. This has been observed that through online service, the insurance companies have been able to reach more number of customers and consequently their customer base has also mopped up significantly.

1.9. Evaluation of Marketing strategies in Life Insurance Corporation of India

The well designed marketing strategies are essential for the effective functioning of any service organization. Life Insurance Corporation of India also needs consumer oriented marketing strategies to achieve its goals. Unfortunately, the need for developing consumer oriented marketing strategies
was recognized in LIC of India at a later stage. Until 1982, LIC of India was purely sales organization and its approach to the market was more oriented to the needs of the corporation than the needs of the customer. The branch offices were acting as merely business procurement center, while serving aspect was left to the divisional offices. As a result, there was delay in serving the policyholders. There was no clear – cut market segmentation strategies in LIC to look after the specific needs of various customer grasp.

In the year 1982, LIC of India started adopting the marketing approach. The first step towards this end was decentralization of LIC of India operations up to branch level. As a result of decentralization, almost all aspects of policy serving were entrusted to the branch office. This enabled the corporation in avoiding delays in policy servicing and moving closed to the customer. Most of the marketing function like identifying the prospective customer and motivating them to take policies, policy registration, policy serving, sales force management, settlement of claims etc., are now entrusted to branch office. However, the function like market research, advertising, publishing and market planning are still carried out by the corporate office.

Under the reorganization scheme, whereby a total change in the organization structure and culture is being attempted, the whole approach to co-operation business activity has been refashioned. The LIC tell that “the basic change in the concept of the organization from sales organization to a marketing organization requires scientific approach to its sale techniques”.

On the one hand the offices are required to do environmental scanning and prepare their performance budget and plan in view of their resources and potential, on the other hand area of operation and the constituent clientele, they are required to identify and classify the market segments in order to help design suitable products evolving right strategies for increase in sales, thereby achieving all round growth. In view of this, the objective of the marketing policy have been defined as follows “as a national organization to provide optional financial security through Life Insurance, as extensively as possible to diverse populations in urban and rural areas, with different occupation and sources of income and in high, middle and low income levels more especially the economically weaker sections”.

For achieving the above stated objective the goals are spelt out as follows.

i. Bringing about a marketing approach at different tiers of the organization hierarchy.

ii. Better penetration into rural areas and market segments of urban and rural areas which were hither to adequately explored.

iii. Offering adequate range of products suitable for different segments of people.

iv. Improving customer satisfaction, by ensuring need based selling, by evolving stands of performance for different aspects of servicing, by devising appropriate procedures and systems, and by enhancing the commitment to service on the part of agents and employee.
v. Improving cost effectiveness by ensuring a high rate of conservation of business, lowering procreation and servicing costs, optimizing the product mix, higher productivity in the field and in the office and by improving the quality of supervision and control over personnel and practice.

For evolving effective strategies to achieve these objectives, the corporation examined its strengths, weakness, opportunities and treats (SWOT analysis) before it. The main elements of this process were planning and performance budgeting, product development, improvement in agency organisation in qualitative and quantitative terms with increasing emphasis on training and incentives. Simultaneously well-designed programmes of consumer education through proper publicity media were undertaken.

With a view to achieve the marketing objective and goals, LIC has established, marketing departments at various levels i.e. central Zonal, divisional and branch levels.

In order to serve different grasp of the community it is necessary to identify the market segments and find a strategy to serve the needs of each segments.

The LIC has identified the following segments for the purpose of marketing.

i. Professional and managerial groups

ii. Regular income group viz., clerical, sales, service, production, transport and others.
iii. Self-employed group viz., cultivators, traders, fisherman, etc.

iv. Salary saving scheme group

v. Group and superannuation scheme

This was done to ensure

1. Systematic analysis of environment and economic data to determine to market potential and to plan the level of performance for each market segment.

2. The determination in detail of the marketing strategies. The need to develop different market segments and the field organization need to achieve the purpose and

3. Estimation of total resources needed to achieve the planned level of performance, profitability and sustained growth. The divisional and branch offices were advised to begin the exercise of preparing the performance budget and plans tacking into account the potential of each market segment the their area of operation

After the adoption marking concepts in the place of sales concepts, LIC has made significant improvement in the development of products, pricing of policies, promotion and distribution strategies. The business performance of LIC of India has also improve after introducing the reorganization scheme. LIC has improve servicing quality to a large extent during the period by transferring all the servicing function to branch offices. Though the need for marking approach is recognized by LIC, there is a wide spread feeling that the
important of marketing orientation is not realized throughout the organization, particularly at the grass root level. The adoption of marketing strategies in LIC is still in evolving stage. Therefore, there is a need to continuously reviews its marketing operation and identity the deficiencies existing in the present set up. Keeping this in view an attempt is made here to review the marking operation and strategies of LIC from the view point of its marketing mix elements which are being used in implementing its programmes.

1.10. Limitations of the study

As the study made with Primary and Secondary research, there are certain limitations to the study to be noticed.

1. Main limitation to the study was the time available to conduct it, which affected the processing and analyzing of the data.

2. Sufficient number of respondents from all the LIC service could not be included.

3. The study is confined only to policyholder satisfaction of LIC and other related issues are beyond the purview of present study

4. Due to time constrain the researcher covered only a limited period of study i.e. 2005-2006 to 2009-2010.

5. Sample size is limited to 300 people only. The sample size may not adequately represent the whole market.

6. It is difficult to know if all the respondents gave accurate information; some respondents tend to give misleading information.
1.11. Chapters Scheme

Chapter I: Introduction & Design of the Study

This chapter presents an introduction to Insurance, importance of the study, Statement of the problems, Objective of the study, Hypothesis of the study, scope and significance of the study, Research methodology (Sampling design, area of the study, period of the study, Research design, data collection, data evaluation, Statistical tools used, pre–testing and Pilot study, Reliability, Level of significance), Evaluation of Marketing strategies in Life Insurance Corporation of India and limitation of the study.

Chapter II: Review of Literature

This chapter presents the review of previous literature.

Chapter III: Theoretical Perspective of Indian Insurance Industry Profile

This chapter discusses the theoretical perspective of Indian Insurance Industry.

Chapter IV: Life Insurance Corporation of India, Company and Area profile

This chapter discusses the theoretical perspective exclusively of LIC of India and profile of Thanjavur District.

Chapter V: An Analysis of Policyholders Satisfaction in LIC

This chapter presents the analysis of the data, results of the data analyzed were presented in tables and inferences drawn are mentioned.

Chapter V I: Summary of Findings, Suggestion and Conclusion

A summary of findings of the study is presented in this chapter.