Service Performance of the Life Insurance Corporation of India: An Empirical Study

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Introduction

Globalization and technology improvements have forced companies into tough competition. The ability to identify profitable customers and then customize marketing on the basis of customer value has enabled many companies to punch above their credence in today’s competitive environment. While getting customers is fundamental to business success, retaining customers is more important. Peter Drucker observes that “the purpose of a business is to create customers.” In today’s economy, companies desire their image in the marketplace to be positive, despite the need to contain expenses on unprofitable customers. The competitive market position and the good reputation of a company can quickly translate into market share and profit, but that distinction is often earned only through a philosophical commitment to service backed by diligent attention to what customers want and need. Today’s businesses are facing fierce and aggressive competition while operating in both a domestic and a global market. Most managers and marketers would of course agree that establishing long-term business relationship is essential for development and survival. According to Lewis, the world has never been so interdependent (Lewis, 1991). All trends point to co-operation as a fundamental, growing force in business (Mosad Zineldin, 2005). Today marketing is not just developing, delivering and selling, it is moving towards developing and maintaining mutually long-term relationships with customers (Buttle, 1996). This new business philosophy is called “relationship marketing”, which has attracted considerable interest both from marketing academics and practitioners (Gronroos Christian, 1990).

Concept of Service Quality

Service quality refers to the collective effort of service performance, which determines the degree of satisfaction of users of all the services. The degree of consumer satisfaction bears a direct relation with quality of service where good quality of service gives better customer satisfaction and bad quality of service leads to dissatisfaction of the customers. In a monopoly situation, a customer has no choice but to accept the quality of service of whatever level of standard that the
monopoly operator provides. Service quality can be defined as the personal experience of the customer with the service provider. Service quality is playing an increasingly important role in the present environment where there is no further scope for companies to differentiate themselves other than the quality of the service provided by them. Delivering superior service quality than the competitors is the key for the success of any organization. But, the companies face difficulties in measuring the quality of services offered to the customers. Because unlike measuring the quality of goods, the measurement of the quality of services offered by the companies is difficult due to the unique features of the services, viz. intangibility, heterogeneity, and inseparability. Hence, the only way of measuring the quality of services offered by the service provider is the measurement of the customer’s perception of the quality of service they are experiencing from their service providers. Academicians and researchers have proposed several approaches to service quality. Some of them are dimensions of service quality, gap analysis, the design approaches and direct application of quality know-how from goods to services.

**Importance of Service Quality in Life Insurance**

Life insurance providers offer services that are credence products with very few cues to signal quality. It has been suggested that consumers usually rely on extrinsic cues like brand image to ascertain and perceive service quality (Gronroos, 1984). This factor is especially true for a “pure” service such as insurance, which has minor tangible representations of its quality and is highly relational during most transactions. There is also a lack of price signal in the market due to specialized customer needs and difficulty in comparing prices; thus consumers cannot rely solely on price as an extrinsic cue to signal quality. The outcomes of life insurance purchase are often delayed, and thus do not allow immediate post-purchase valuation. As such, the consequences of a purchase do not produce an immediate reaction towards overall satisfaction. This situation is more apparent as the future benefits of the “product” purchased are difficult to foresee and take a long time to “prove” its effects (Crosby and Stephens, 1987). Infrequent purchase and “usage” of such credence products by consumers would
mean an inability or difficulty in forming service expectations due to limited understanding of and familiarity with the service (Johnston, et al., 1984).

At the same time, because of the amount of money that is typically invested in an insurance policy, customers seek long-term relationships with their insurance companies and respective agents in order to reduce risks and uncertainties (Berry, 1995). Pure services like insurance may, therefore, conjure different expectations than that of services that include tangible products (Toran, 1993). An insurance policy is almost always sold by an agent who, in 80% of the cases, is the customer’s only contact (Richard and Allaway, 1993). Customers are, therefore, likely to place a high value on their agent’s integrity and advise (Zeithaml, Berry and Parasuraman, 1993). The quality of the agent’s service and his/her relationship with the customer serves to either mitigate or aggravate the perceived risk in purchasing the life insurance product. Putting the customer first and, exhibiting trust and integrity have found to be essential in selling insurance (Sherden, 1987). Customer surveys by Prudential have identified that customer want more responsive agents with better contact, personalized communications from the insurer, accurate transactions, and quickly solved problems (Pointek, 1992). A different study by the National Association of Life Underwriters found other important factors such as financial stability of the company, reputation of the insurer, agent integrity and the quality of information and guidance from the agent. Clearly, understanding consumers’ expectations of life insurance agent’s service is crucial as expectations serve as standards against which service performance is assessed (Walker and Baker, 2000). Research has shown that the quality of services and the achievement of customer satisfaction and loyalty are fundamental for the survival of insurers. The quality of after sales services, in particular, can lead to very positive results through customer loyalty, positive WOM, repetitive sales and cross-selling (Taylor, 2001). It is therefore not surprising that measurement of service quality has generated, and continues to generate, a lot of interest in the industry (Wells and Stafford, 1995). Thus, the service quality requires examination in context of life insurance services.

Statement of the Problem
The Indian insurance industry has moved into a more competitive arena with the arrival of private players in the market. Even though the Life Insurance Corporation of India reigns supreme in terms of market share, private companies are gearing up to woo the consumer. Any new player entering the insurance business would try to differentiate its product offering, but it is the service delivery system which would become the key differentiator. One of the most curious aspects of insurance services is that customers expect quality and customization simultaneously. In the globalization regime, 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. The existing insurers are facing difficulties from non-traditional competitors that are entering the retail market with new approaches and through new channels. Quality of service is the main influencing factor in the market but in the insurance market, product attributes are the main factors that influence the success of insurance companies. The service of the life insurance policy effectively takes place when the promise has to be redeemed. The claim arises at that time and not when the policy is sold. A policy is taken by the policyholders not just to cover risk but also as a saving instrument.

Quality in customer service is critical to success in any liberalized environment. The primary focus of the insurance companies in the liberalized era is in delivering quality service. It is highly essential to bring about quality improvement in the services of the life insurance companies, as the customers’ tastes, preferences and requirements are ever changing. Quantifying service quality measurements will help the companies to direct their efforts towards service improvement. This involves an understanding of the customer expectations and perceptions of the services. In India, insurance started with life insurance. It was in the early 19th century. In 1956, life insurance business was nationalized and LIC of India came into business and enjoyed monopoly till 1999 as private insurance companies started their operation in India. Private players captured a significant market share. But still the insurers had behaved, more as
retail seller; target small investors, salaried people and others who wanted to satisfy individual’s future goal.

The life insurance should be covered for a large section of Indian population and it should be a social security measures until the introduction of western model of social security scheme by the government of India. Since 1955 establishing Life Insurance Corporation of India as monopoly insurance business has not fulfilled the expectations of the government to popularize life insurance, and hence the Malhotra Committee strongly recommended the privatization of life insurance companies in joint venture with business houses in India and they started doing business with effect from 1.4.2000. The problem is even with introduction of private players, the insurance business has not become popular and private players have concentrated on the important cities only. Life insurance industry presents a product market relationship denominated by personalized selling. Therefore, the researcher thinks that it is worth to study the perception of the policyholders towards the service quality of the LIC of India.

**Objectives of the Study**

The main objective of this study is to examine the perception of the policyholders towards service quality of the LIC of India in Bangalore City. Besides, the study has the following secondary objectives:

1. To study the need and importance of service quality in life insurance.

2. To review the various life insurance plans and services of the Life Insurance Corporation of India.

3. To study the perception of the policyholders towards service quality of the Life Insurance Corporation of India in Bangalore City.

4. To suggest suitable measures to improve the service quality of the Life Insurance Corporation of India.

**Testing of Hypotheses**
The study is based on the formulation of the following null hypotheses.

H01: There is no significant association in the satisfaction level of the policyholders belonging to different socio-economic profiles towards the services of the Life Insurance Corporation of India.

H02: There is no significant relationship among the acceptance level of the respondents belonging to different demographic profiles towards the perceived level of service quality in LIC of India.

H03: There will be no significant difference in the acceptance levels of the policyholders between the expected and perceived levels of the service quality in the LIC of India, Bangalore City.

H04: The demographic variables of the policyholders such as gender, age, educational status, monthly family income, occupation, type of insurance policy, the branch they belong to and number of policies hold do not have any influence on their acceptance level towards loyalty with the Life Insurance Corporation of India.

Scope of the Study

The scope of the study is assessing the service quality of the Life Insurance Corporation of India in Bangalore City. 25 branches are functioning under two divisional offices of the LIC of India in Bangalore City, namely, Divisional Office, J.C. Road; and Divisional Office, Indira Nagar. Therefore, this study is restricted to these two divisional offices only. The service quality is a vast subject consisting of a number of dimensions. The most common dimensions of the service quality namely, assurance, empathy, reliability, responsiveness, and tangibility only are studied in the present study.

Sampling Design

This study is confined to the policyholders of Life Insurance Corporation of India in Bangalore city. There are 25 branches in operation in Bangalore city.
present study, the sampling involves two stages. In the first stage, out of the 25 branches, 5 branches i.e. 20 per cent are selected on random basis. In the second stage, by adopting quota sampling, 100 respondents are selected from each branch. The sampling details are given in the following table.

**TABLE 1**

<table>
<thead>
<tr>
<th>Place of the Branch</th>
<th>No. of Samples</th>
</tr>
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<tbody>
<tr>
<td>Basavanagudi</td>
<td>100</td>
</tr>
<tr>
<td>Jayanagar</td>
<td>100</td>
</tr>
<tr>
<td>Vijaya Nagar</td>
<td>100</td>
</tr>
<tr>
<td>M.G. Road</td>
<td>100</td>
</tr>
<tr>
<td>Richmond Town</td>
<td>100</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td><strong>500</strong></td>
</tr>
</tbody>
</table>

**Tools for Data Collection**

This study is empirical in nature based on survey method. The first-hand information for this study was collected from the Divisional Offices of the Life Insurance Corporation of India in Bangalore city. As an essential part of the study, the primary data were collected from 500 policyholders. A pilot study was conducted with 25 policyholders. In the light of the experience gained from the pilot study, few changes were incorporated in the revised questionnaire. Questionnaire method was employed to collect primary data from the policyholders. The secondary data were collected mainly from journals, reports, books, and records.

**Framework of Analysis**

The ultimate object of the study was to assess the service quality of the Life Insurance Corporation of India in Bangalore City. In order to study the perception
of the policyholders towards the service quality, various statistical tools such as chi square test, student t test, paired comparison t test, analysis of one-way variance, co-efficient of variation, multiple regression analysis and percentage analysis were employed. To arrive at possible solutions, percentage analysis was also employed in this study.

Findings

1. Out of 500 respondents, 35.60%, 37.40%, 15.20%, 7% and 3.80% of the respondents strongly agree, agree, neither agree nor disagree, disagree and strongly disagree respectively about various factors influencing the policyholders for opting insurance policies in LIC of India. The average acceptance score reveals that payment mode is the most important factor for the respondents to prefer insurance policies in LIC of India (4.62), followed by product flexibility (4.59). However, with regard to professional advice, the respondents assign least importance (3.21).

2. 20.60 per cent of the respondents invested in life insurance policy for safety and security purpose. 24% and 27% of the respondents invested for protection of family and returns respectively. 39.40%, 42.40% and 49.40% of the respondents invested for the purposes of investment, old age needs and children interest respectively. 49.40% of the respondents invested for the purpose of tax benefit.

3. There is a significant association among the satisfactions levels of the respondents belong to different genders, age groups, educational qualifications, occupations, income groups, branches they belong to, and types of policies towards services of the LIC of India.

4. Male respondents, respondents in the age group 41-50 years, respondents having up to H.Sc qualification, employed persons, respondents whose monthly income is above Rs.35000, policyholders of the Vijaya Nagar branch and policyholders have pension plan are more satisfied towards services of the LIC of India in Bangalore City.
5. There is no significant relationship among the acceptance level of the respondents belong to different genders, age groups, occupations and income groups towards perceived service quality in LIC of India. However, a significant relationship is found among the acceptance level of the respondents belong to different educational status, branches belong to, types of life insurance policies, and number of life insurance policies hold towards perceived service quality in LIC of India.

6. Female respondents, respondents in the age group up to 35 years, respondents having up to H.Sc qualification, retired persons, respondents drawing monthly family income up to Rs.15000, policyholders of the Vijaya Nagar branch, respondents who have pension plan policies and respondents having more than 6 policies have higher acceptance level with the perceived service quality.

7. There exists consistency in the acceptance level among the male respondents, among the respondents belonging to 46-55 years, among the respondents who have H.Sc qualification, among the employed respondents, among the respondents whose monthly family income is up to Rs.15000, among the policyholders of the Vijaya Nagar branch, among the endowment policyholders and among the respondents having 2 and 3 life insurance policies with the perceived service quality in LIC of India in Bangalore City.

8. There has been a low correlation between the perceived service quality and the selected personal variables. The R square indicates that 0.20 per cent of variation in the perceived service quality is explained by all personal variables taken together. The gender, age, education, monthly family income, and type of policy of the policyholders have no significant effect on the perceived service quality in the LIC of India.

9. There is a significant difference in the acceptance level of the policyholders between expected and perceived levels towards assurance of service in LIC of India. The average acceptance score of the policyholders with respect to
expected assurance level is high compared with perceived level. Thus, there is a gap between the expected and perceived levels of the assurance of service.

10. Out of 500 respondents, 31.60%, 42.20%, 16.40%, 8% and 1.80% of the respondents strongly agree, agree, neither agree nor disagree, disagree and strongly disagree respectively towards assurance of service in LIC of India. The average acceptance score reveals that the respondents have higher (4.50) acceptance towards employees’ knowledge to answer policyholders’ questions. In the case of employees’ courteous, the policyholders have lower acceptance score.

11. A significant difference is found in the acceptance level of the policyholders between expected and perceived levels towards empathy service quality dimension. The average acceptance score of the policyholders towards empathy is high compared with perceived level. Hence, there exists gap between the expected and perceived levels with respect empathy service quality dimension.

12. About 18%, 36.20%, 33.60%, 11.80% and 0.40% of the respondents strongly agree, agree, neither agree nor disagree, disagree and strongly disagree respectively towards empathy service quality dimension in LIC of India. The average acceptance score reveals that the respondents have higher (4.13) acceptance towards individual attention given by LIC of India on the policyholders, followed by understanding the specific needs of the policyholders (3.89). The respondents have lower (3.09) acceptance score towards showing best interest at heart.

13. A significant difference is found in the acceptance level of the policyholders between expected and perceived levels towards reliability service quality dimension. The average acceptance score of the policyholders on the expected level of reliability is high compared to perceived level. Therefore,
there is a gap between the expected and perceived levels of the reliability service quality dimension.

14. Out of 500 respondents, 27.40%, 37.80%, 22.80%, 9.40% and 2.60% of the respondents strongly agree, agree, neither agree nor disagree, disagree and strongly disagree respectively towards reliability dimension of service quality in LIC of India. In the case of promises to do, it does so, the respondents have higher (4.46) average acceptance score. The respondents have lower (3.02) acceptance score towards sincerity of the LIC of India in solving the problems of the policyholders.

15. No significant difference is found in the acceptance level of the policyholders between expected and perceived levels towards responsiveness dimension of the service quality. The average acceptance score of the policyholders with respect to expected level of responsiveness is high compared with perceived level. Thus, there exists gap between the expected and perceived levels of the responsiveness dimension of the service quality in LIC of India.

16. Out of 500 respondents, 28.40%, 39%, 24%, 8.40% and 0.20% of the respondents strongly agree, agree, neither agree nor disagree, disagree and strongly disagree respectively towards responsiveness dimension of the service quality in the LIC of India. The average acceptance score reveals that the respondents have higher (3.94) acceptance towards willingness of employees to help policyholders. In the case of employees’ response with regard to when the service will be performed, the policyholders have lower (3.70) acceptance score.

17. A significant difference is found in the acceptance level of the policyholders between expected and perceived levels towards tangibility dimension of the service quality. The average acceptance score of the policyholders towards expected level of tangibility is high compared to perceived level. Thus, there
is a gap between the expected and perceived levels of the tangibility dimension of the service quality in LIC of India in Bangalore City.

18. Out of 500 respondents, 34%, 39.20%, 22.80%, 3% and 1% of the respondents strongly agree, agree, neither agree nor disagree, disagree and strongly disagree respectively towards tangibility dimension of the service quality. The average acceptance score reveals that the respondents have higher (4.32) acceptance towards modern equipment used by the LIC of India. The respondents have lower acceptance score towards visual appealing of physical facilities in the LIC of India.

19. There is no significant relationship among the acceptance level of the respondents belong to different age groups, educational status, occupations and number of policies hold towards loyalty with the LIC of India. However, a significant relationship is found among the acceptance level of the respondents belong to different genders, income groups, branches belong to and types of life insurance policies towards loyalty with the LIC of India.

20. Female respondents, respondents in the age group 36-45 years, respondents with Diploma/ITI qualification, businessmen, respondents having monthly family income above Rs.35000, policyholders of the M.G. Road branch, respondents who have whole life policies and respondents having less than 2 policies have higher acceptance level towards loyalty with the LIC of India.

21. There exists consistency in the acceptance level among the male respondents, among the respondents belonging to up to 35 years, among the respondents who have up to H.Sc qualification, among the housewives, among the respondents whose monthly family income is above Rs.35000, among the policyholders of the Jayanagar branch, among the money back policyholders, and among the respondents having more than 6 life insurance policies towards loyalty with the LIC of India.

22. There has been a low correlation (0.113) between loyalty and the selected personal variables. The R square indicates that 1.3 per cent of variation in the
loyalty is explained by all independent variables taken together. The F value indicates that the multiple correlation coefficients are not significant. The gender, age, education, monthly family income and type of policy have no significant effect on the loyalty with the LIC of India.

23. Out of 500 respondents, 36%, 45.40%, 14.20%, 3.60% and 0.80% of the respondents strongly agree, agree, neither agree nor disagree, disagree and strongly disagree respectively towards their loyalty with the LIC of India. The average acceptance score reveals that the respondents have higher acceptance level towards quality of LIC of India’s service (4.42), followed by recommending others to have business with LIC of India (4.32). In the case of saying positive things about LIC of India, the respondents have lower acceptance score.

24. Respondents ranging from 42.20 per cent to 49.60 per cent state that absence of customer special events, delay in service, inadequate infrastructure, reducing rate of reliability, absence of creativity and innovativeness, lack of understanding the customer and inadequate customer contact programmes are problems with the service quality in the LIC of India. About 50.80%, 52.60%, 55.60%, 57.60% and 58.40% of the respondents’ problems with respect to service quality of the LIC of India are absence of update information, lack of staff involvement, absence of user friendly skills, lack of customer compliant monitoring cell and lack of quality improvement respectively.

25. Ranging from 40.40 per cent to 44.40 per cent of the respondents suggest that special events for policyholders, provisions of prompt service, improvement in infrastructure and improving reliability will improve service quality of the LIC of India. 46.20%, 46.80%, 48.60% and 49.60% the respondents suggest that creativity and innovativeness, understanding the customers, customer contact programmes and providing up date information respectively will improve service quality. More than 50% of the respondents state that staff involvement, user friendly skills, customer compliant
monitoring cell and quality improvement strategy will improve service quality of the LIC of India in Bangalore City.

Suggestions

1. Policyholder needs and requirements are very much volatile. In changing environment, it is good to look forward by anticipating future. Since the policyholders look for insurance companies with convenience, flexibility having innovative ideas, changing their offerings according to the needs of the policyholders, the LIC of India must know and prepare offers according to the changing environment.

2. The policyholders state that the LIC of India has not been able to provide quick service. A long delay in making available the services to the policyholders may erode the credibility and goodwill as well as policyholders’ confidence. Therefore, the business continuity planning should be an integral part of services offerings of the LIC of India.

3. The LIC of India should focus more on improving the infrastructure. The infrastructure not only involves the information technology input in the branches, regional officers and head office, but also the physical evidence, ambience and layout. This is due to the fact that like in other service organizations, in insurance services also, the internal ambience of the organization has a positive impact on the policyholders.

4. Every one working in the LIC of India must have a clear goal in mind. It is not affordable that the top management is looking towards service quality and middle management looking towards personal interactions and so on. The employees of the LIC of India should never turn their back on the policyholders. They should suggest alternative insurance products to the policyholders’ benefit. This can be one way of ensuring “policyholders delight”.

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ISSN: 2278-9111
5. The policyholders trust the LIC of India since it has existed in the market for a longer period than the private sector insurance companies. The reliability factor is a positive factor for the LIC of India. Therefore, the LIC of India should position them in the market on the basis of this dimension and promote them aggressively. This step will not only help them survive the present onslaught from private sector insurance companies, but also be able to compete in the market.

6. Policyholders are loyal only when the insurance company has a through understanding of their requirements. If the insurance company don’t have enough information about policyholders, it is impossible to understand Policyholders’ problems. It is recommended that the LIC of India shall keep on tracing the policyholder and get through knowledge about policyholders’ problems. Database on various aspects of policyholders’ profile such as the type of policy, the period of their association with the LIC of India and the purpose of holding the policy should be created by the customer care department which should function in every branch and it must develop an excellent total policyholder care programme to suit the specific requirements of its target policyholder. Therefore, it is imperative for the LIC of India to have adequate information about the policyholders, in order to ensure them proper and suitable services.

7. The LIC of India should establish a separate ‘Customer Compliant Monitoring Cell’ in each branch. The function of the cell must be to receive, register and classify policyholder complaints and forward them to the respective sections to initiate action, and follow up until the compliant is attended to the satisfaction of the policyholders concerned. Moreover, regular “policyholder satisfaction audit’” is to be carried out in each branch of LIC of India to find areas of discrepancies and try to improve the policyholder’s perception level. Besides, the LIC of India can appoint young, well educated, dedicated, highly trained and motivated “relationship managers” to improve service quality.
8. From a policyholder perspective, contact programme greatly enhances the ability of the insurance company to meet expectations by delivering appropriate, coherent sales and relationship building messages across all channels. An effective customer contact strategy in the insurance company will align marketing communications with customers and will deliver the right range of communications to the right customers at the right time, and will drive responses through the right response channels. Therefore, the LIC of India shall undertake customer contact programmes in order to understand the expectations as well the problems of the policyholders. For this purpose, policyholder meet, special events, direct mails, greeting cards, etc. can be used to have a regular contact with the policyholders.

9. Every branch of the LIC of India shall constitute a “Customer Relationship Committee” consist of staff and policyholders of various segments. The policyholders can lodge their complaints and offer their suggestions on various matters pertaining to insurance services. These complaints shall be discussed at the Customer Relationship Committee meeting every month. A report of the committee is to be prepared and follow up actions are to be reviewed in the subsequent meeting.

10. LIC of India must have to focus on quality improvement strategy to remove the quality flaws by giving the first priority to the items with biggest gaps and subsequently to the items with lowest gaps. Therefore, the LIC of India should ensure that agents and employees are well trained and understand the needs of policyholders and provide services accordingly that the organization is supposed to provide for its customers. Besides, in a competitive environment, by performing on differential strategies aimed at improving the service quality, LIC of India will be able to add value to their relationship with the current and prospective policyholders.

Conclusion
In the increasing competition in insurance industry, companies want to differentiate themselves from the competitors and stay ahead in the race. The oldest and leading public sector insurance company i.e. LIC in India has facing very stiff competition from the new players entering the market. LIC of India is facing increased competition on one front and a decline in the market share on the other hand. LIC has always been in the forefront of utilizing its recourses effectively. It has been striving to achieve effectiveness and excellence in its business operations. In case of insurance sector, word of mouth plays a vital role, so keeping this aspect into consideration; insurance player should focus on the service quality. The researcher suggest measures such as special events for policyholders, provisions of prompt service, improvement in infrastructure, improving reliability, creativity and innovativeness, understanding the customers, customer contact programmes, providing up date information, staff involvement, user friendly skills, customer compliant monitoring cell and quality improvement strategy will improve service quality of the LIC of India.

References


