

The private market for insurance in India: A review of the evidence

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Abstract

Human life is subject to various risks-bolts from the blue can happen any time. Humans are also subject to diseases, the treatment of which may very costly. On the other hand, property possessed by man is subject to various calamities, natural and man-made. When human life is lost or a person becomes disabled permanently or temporarily, there is a loss of income to the household. The family has to face hand to mouth situations. Sometimes survival itself is at stake for the dependents. When it comes to loss, it results in either whole or partial loss in income to the person or entity. Risk has the ambiguous aspect. Death/disability or loss/damage could occur at any time. Losses can be mitigated through insurance. Insurance proves as an olive branch against various contingencies. Insurance products are innumerable available for life and non-life are many. In nonlife, apart from personal covers such as accident covers and health insurance, there are products covering liabilities under a particular situation.

Keywords: various calamities, natural and man-made

Introduction

The insurance industry in India has witnessed different eras and is more than 150 years old. From the days when there were several private companies, to nationalisation, and to privatisation, the industry has come a full circle. Prior to independence, more than two hundred private insurance companies were doing business particularly in life insurance arena. A cursory glance at the pre nationalisation period, through the Indian Insurance Year Books and historical studies amply demonstrates that even with an increasing number of statutory laws and insurance acts passed from time to time-more than 40 times during 1938, 1939, 1940, 1941, 1944, 1955 and the Insurance Act 1958 – to regulate and control the business, as many as 66 out of 215 life insurance companies perished between 1935 and 1955 (Agarwal, 1961 and Bhave, 1970). The growing business, mismanagement and malpractice, manipulation of life funds to indulge in speculative trading, large scale liquidation of insurance companies, inter-locking of funds, and control and influence of large business houses led to public disenchantment and resentment.

On 19th January 1956, the government promulgated life insurance (Emergency Provisions) ordinance through which it took temporary charge of the life insurance business of 154 Indian and non-Indian insurers and of 75 provident fund societies operating in the country (Agarwal, 1960). On 18th June 1956, the government brought the bill in the parliament for the formation of LIC. The bill, better known as Life Insurance Corporation of India Act, 1956, came into force on 1st September 1956 through which the government which took over the life insurance business in the country. The LIC was a monopolistic and monolithic institution, the only exception being the postal life insurance and a few compulsory schemes of life insurance for state employees managed by some state government.

Services were more difficult to evaluate than products

Parasuraman *et al.* (1985) found that services were more difficult to evaluate than products given that services were characterized by intangibility, heterogeneity, simultaneity of production and consumption, and a high proportion of credence versus search and experience properties. Further, professional services were complex in nature, and their effects were often delayed, which made even post purchase evaluation difficult. Also, professional services were mainly bought on an irregular basis preventing the client from accumulating experience on what to expect and demand from a service encounter. The client also typically lacked the expertise to perform the service himself and consequently might have problems in judging the objective performance the entire service provider (Day & Barksdale 1992; Day *et al.* 1988). These were all issues which complicated the evaluation of the quality of professional services.

Insurance is a mechanism

Edmister (1987) in his study opines that insurance is a mechanism which involves two fundamental features i.e. transferring to risk of an individual to a group and sharing losses on some basis by all members of concerned group. Wherever companies starts an insurance business must predict in advance that what will be the group of person? What will be the percentage of the same group who die at certain age? On the basis of these data a table is formatted containing these percentages, called mortality statistics. These tables provide an important aspect about the timings & frequency of death affect the timings.

Working & performance of LIC

Mishra (1991) while studying the working & performance of LIC in marketing management, found that only 13% of the population in India was insured till then. The business, in

terms of getting premium of LIC, increases mainly due to salaried persons for their tax liability. He suggested that the business of LIC should be extended to non-salaried people. He also compared the data of per capita business zone wise and found it higher in western and northern zones.

In the literature there had been some confusion over the relationship between service quality and customer satisfaction. Some researchers stated that service quality and satisfaction measured the same underlying concept and therefore were the same. Other authors argued that satisfaction with a specific transaction precedes the perception of the overall quality of the firm and therefore were the antecedent of perceived quality. Finally, others suggested that the concepts of satisfaction and quality were different, and that it was the perceived service quality that would affect customer satisfaction. Fornell (1992), found that, as a general psychological phenomenon, satisfaction was primarily a function of a customer's quality experience with a product or service. So overall it was expected that the greater the perceived quality, the higher the level of customer satisfaction.

Customer retention in retail financial services

Jillian Dawes Farquhar (1994) study Customer retention in retail financial services: an employee perspective aimed to contribute to an understanding of how customer retention was practiced, by surveying staff perceptions to customer retention (CR) in their organizations. The study found that these financial service retailers were aiming to retain customers through building relationships but lack of management appreciation for staff expertise and the burden for service quality and retention appears to fall upon staff. The study also found that staffs appeared to view themselves as key players in retaining customers and, since information systems and structure appeared not to provide the required support, there were grounds for this view. CR required a positive climate in which everyone in the organization worked towards keeping customers (Reichheld and Sasser, 1990) and the major role was played by employees in building customer relationships and implementing sales strategies (Durkin and Bennett, 1999). Reichheld and Kenny (1990) conjectured six imperatives for retaining customers that centered on strategic vision and staff development. Managers were responsible for establishing priorities and making strategic choices (Cravens *et al.*, 1996), making it clear that CR requires clear direction and this was the first strand of CRM required that marketing operations, human resource management be inter-linked (Gronroos, 1994), organizations needed to adopt a more holistic approach to marketing, so that functional barriers and hierarchies were broken down (George *et al.*, 1994). If staffs were given more power, greater access to information and adequate knowledge (Bowen and Lawler, 1995), they were in a better position to recover situations or delight customers. Internal marketing supports the creation of a positive climate of cooperation where everyone in the organization was working towards keeping customers (Reichheld and Sasser, 1990).

Benjamin Schneider (1994), studies HRM-A Service Perspective: Towards a Customer-focused HRM investigated the customer oriented employee culture in service sector. The study suggested that organizations should develop and

implement HRM strategy that focused on specific market segments. Segments focused HRM policies, practices and procedures activate employee's energies and provided direction and activation and direction are keys to the motivation of employee's (Locke and Latham, 1990). This focusing of employees was recognized as "culture" and others have called it "climate" (Schneider, 1990). In addition, study also suggested that in the world of service the integration and co-ordination across functions like marketing, HRM and finance became increasingly essential, so that the focus on the customers of choice, on the targeted market, could be effectively accomplished. Indeed, the more HRM considerations could be integrated into the very initial thinking about new services and procedures for their delivery, the more likely it was that HRM would be seen as "responsive" to the needs of the firm by management.

Steve Macaulay and Sarah Cook (1995), concluded that teamwork was a term most service organizations as its benefits were highly visible to the customer. The study suggested that under team work umbrella employees would work closely, together and with the customer, and so respond flexibly to their needs.

Robert Johnston (1995), demonstrated that some determinants of quality predominate over others. The study found that for the personal customers of the bank, the main sources of satisfaction were attentiveness, responsiveness, care and friendliness. The study also found that the intangible aspects of the staff-customer interface had significant effects, both negative and positive, on service quality. Responsiveness was a crucial determinant of quality, as it was a key component in providing satisfaction and the lack of it is a major source of dissatisfaction. The main sources of dissatisfaction were integrity, reliability, responsiveness, availability and functionality. Reliability was predominantly a source of dissatisfaction not satisfaction. Robert Johnston (1995) study demonstrated the same results as revealed by Johnston and Silvestro (1990) study.

Since its opening to private and commercial use in 1995, the Internet had been growing tremendously (Agrawal, 1998). The construct of customer satisfaction (CS) had been researched extensively during the past decades. However, as of today, no generally accepted model had emerged (Berger & Mens van, 1997; Johnson Anderson, & Fornell, 1995; Kaapke & Hudet, 1998). A common problem with customer satisfaction measurement was the fact that in practice, a large amount of different approaches exists (Klingebiel 1998; Ramos, 1996) of which a considerable number was not based on any theoretical foundation at all (Peterson & Wilson, 1992). This could partly be attributed to the complexity of the (potential) concepts related to the construct of customer satisfaction.

Krosnick and Petty (1995), found strong evidence for effect of attitude strength on behaviour and behavioural intentions led towards customer satisfaction. Krosnick and Petty also referred to the strong impact of attitude strength on behaviour and the processing of information.

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Conclusion

Life Insurance Corporation (LIC) came to be highlighted on 1st September 1956 through the amalgamation of 154 Indian insurance companies, 16 non-Indian companies and 75 provident. The amalgamation was achieved with the help of Life Insurance Act passed by the Parliament in the same year. The LIC was created with the goal of reaching all the insurable people in the country and providing them financial coverage at a reasonable price. In the year 1956, LIC had 5 zonal offices, 33 divisional offices and 212 branch offices. With time there was a need for a branch office at every district headquarter and many branches were opened, which raised the pace of the organization.

LIC now has 2048 fully computerized branch offices, 100 divisional offices, 7 zonal offices and the corporate office. At present, online premium collection facility is being offered in selected cities as LIC has tied up with some banks and service providers. For providing customer satisfaction the organization has introduced various schemes such as ECS, ATM premium payment facility, IVRS, Info centers which are set up in various cities including Mumbai, Bangalore, Chennai, Kolkata, New Delhi, Pune and many more. It has also come up with SATELLITE SAMPARK offices providing easy access to policyholders. LIC has crossed many milestones and set standards for itself fostering unmatched performance.

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