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Evaluation of service quality and its impact on customer satisfaction - a life insurance experience.

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Abstract

Customer service is the critical success factor in a company and providing top notch customer service differentiates great customer service from indifferent customer service. In the fast paced environment that surrounds industries today, companies find themselves faced with the pressure to discover foolproof ways to manage their businesses. Insurance industry in India is no exception and is undergoing revolutionary changes. Competition has been central to the agenda of companies and it has become one of the enduring themes of our time. The Insurance Industry today is experiencing intense competition and the major players, including LIC have come under pressure. In lieu of this, retaining a Customer is cheaper than finding a new customer. LIC should focus on assurance and empathy to further strengthen the level of satisfaction. Major players in the market especially LIC have to concentrate on retaining existing customers, which could offer huge business potential. Time based competition, quality, product range, timely advertisement, follow up, prompt and error free service are the key ingredients for the better service and it will boost up the sales.

Keywords: Life Insurance, Service Quality, Customer Satisfaction and Structural Equation Model

INTRODUCTION

The basic human trait is to be averse to the idea of taking risks. There is always an urge to minimize the risks and take protection against possible failure. The risk includes fire, the perils of sea, death and accidents and burglary. Any risk may be insured against at a premium commensurate with the risk involved. Thus collective bearing of risk is insurance. Whether life or non-life insurance, insurer provides people with a reasonable degree of security and assurance that they will be protected in the event of a calamity or failure of any sort. There are number of forces driving the services sector today such as industries-customers, competitors, government, technology and globalization forcing rapid changes in the service sector. In addition, there are four factors of particular importance to service providers-change in how quality is perceived, cost control, customer services and the new definitions of the customer. Prior to 1956, there were about 245 insurance companies, which operated in India. The insurance coverage was mostly confined to life and vehicles. The Government of India felt that a strict Government Control of Insurance industry is required and nationalized the insurance industry in 1956. Life Insurance Company of India (LIC) was formed in September 1956 by an Act of Parliament vis., the LIC Act with a capital contribution of Rs. 50 million from the Government of India (Palande *et al*, 2003). Over the years the Insurance business has grown enormously and collected funds both in linked and non-linked sectors. In recent times new private players have come into existence. Indian Economy is among the most under

insured markets in terms of spread and penetration leaving a huge untapped market penetration, with the insured population being only 70 million people (Palande, Shah and Lunawat, 2003). Indian insurance industry ranks 51 across the world in terms of penetration. The Indian Life Insurance premium is a mere 1.5 percent of the GDP, compared to 11.6 percent in South Korea (Palande, Shah and Lunawat, 2003). It is felt that the changing demographic profile of Indian population, growth of the economy, change over to new technologies, etc. are likely to push the demand for the insurance cover further.

Service quality

Service quality is more difficult for the consumer to evaluate than goods quality. Perceptions of service quality result form a comparison of consumer expectations with actual service performance. Quality evaluations are not made solely on the outcome of a service; they also involve an evaluation of the process of service delivery (Sesser *et al*. 1978). Service quality has been described as a form of attitude, related but not equivalent to satisfaction, which results from the comparison of expectations with performance (parasuraman, zeithaml and berry 1988). Service quality involves a comparison of expectations with performance: it is a measure of how well the service level delivered matches customer expectations of a consistent basis. Service quality has been conceptualized as a function of consumer expectations towards the service situation and process, and of the output quality they perceived themselves to have received.

Objectives of the study

1. To know the profile of the LIC of India.

2. To study the personal, demographic and rational profile of policy holders.

3. To propose a multidimensional model to evaluate the services quality of the corporation.

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Hypotheses of the study (Ho)

There are no multiple-multi dimensional impacts of service quality dimensions on the services quality of LIC.

REVIEW OF PREVIOUS STUDIES

There were many studies dealing with the services quality, its application and its contribution to the firms. They are listed here to show to what extent the various areas were explored in services quality research and to improve the methods and techniques adopted for the study.

Praveen Sahu (2009) assessed Buying Behavior of Consumers towards Life Insurance Policies. The researcher identified the consumer's perception towards Life Insurance Policies is positive. It developed a positive mind sets for their investment pattern, in insurance policies. Montserrat guillen *et al*. (2008) empirically investigated the need to monitor customer loyalty and business risk in the European insurance industry. In this study describe that the reasons why insurance companies should perform customer loyalty and business risk monitoring and develop guidelinges for the implementation of this procedure.

Tamzid ahmed *et al*. (2007) studied the perceptions of the customers towards insurance companies in Bangladesh with the help of servqual model. The researcher concluded that the demographic trends suggest that as private insurance companies (both local and multinational) have proliferated in Dhaka city.

Graham K. Rand *et al*. (2007) investigated the Cultural influences on service quality and customer satisfaction: evidence from Greek insurance: The purpose of this study is twofold. First, the study aims to determine whether culture is related to service quality and whether the importance of service quality dimensions is connected to the dimensions of culture. Second, to examine whether the importance of service quality dimensions determines the strength of their relationships with customer satisfaction and, hence, whether culture is a determinant of the latter. Izah mohd tahir *et al*. (2007) studied service quality gap and customers' satisfactions of commercial banks in Malaysia. In this study the researcher identified commercial banks play a significant role in the economy, making up one of the biggest provider of services in the Malaysian economy.

Maira babri *et al*. (2007) studied customers' preferences of insurance services. In this study, the researcher examines how insurance companies could enhance their ability of meeting the constant changes in customers' preferences in an increasingly competitive environment. Ponreka Maria *et al*. (2007) investigated a Customer Satisfaction with Service Quality with Special Reference to Life Insurance Corporation in Madurai District. In this study, Insurance is the best form of fortification against risk that has been formulated by man. Since its emergence, insurance has become unavoidable to every aspect of human life from health disorders to building properties, from household articles to multimillion – dollar projects.

James C. Hao (2007) explored an Efficiency Test on Taiwan's Life Insurance Industry- Using X-Efficiency Approach. Distribution free analysis (DFA) was applied to determine the relative efficiency of insurers in the sample. He then tested the constants to see if they were related to so-called X-efficiencies because of market share, diversification products strategy, scale efficiency and market growth ratio. Results show that firms with large market share tend to be cost efficient.

Graham K. Rand *et al*. (2006) examined the Path analysis of perceived service quality, satisfaction and loyalty in Greek insurance. This Research shows a positive correlation between the levels of the service's tangibility with the importance of its tangible dimension to the customers.

Lakshmisha K (2005) conducted a study on the service quality of insurance companies. This study is undertaken to assess and compare the levels of performance of various insurance companies with respect to each service dimension and relate these levels with customer satisfaction.

Parasuraman *et al*. (1988) developed a 22-item measurement instrument called SERVQUAL for assessing customers' perceptions of service quality in service and retailing organizations. The 22 items are spread over five dimensions of tangibles, reliability, responsiveness, assurance and empathy. Respondents are first asked to provide the level of service expected from a service firm on the 22-item expectations scale. Perceived service quality is obtained by subtracting the expectations rating from the perception rating for each of the items.

RESEARCH DESIGN
Sampling method

It is a sample survey to measure the services quality of LIC in Tiruchirappalli district. As far as the Tiruchirappalli district is concern, LIC is located in six branches namely, Tiruchy-I, Cantonement, Thiruverambur, Srirangam, Rockfort and CAB (RADIO STATION). In all these branches the managers revealed that there is no formal maintenance of records about the policyholders based on the location of branches. So, the purposive sampling method is adopted to select the sample policyholders scattered all over in Tiruchirappalli and he contacted 100 policy holders in the above said Branches.

Determination of sample size

The sample size for this research study was scientifically determined and the calculation is based on the following formula

$$n = \left[\frac{ZS}{e} \right]^2 \text{----------------- (1)}$$

Where ' n ' is the required sample size, Z is the standard normal variable value at 95% confidence level, 'e' is the allowable sampling error at 5% level, s is the standard deviation of the services quality score of LIC, that is estimated in pilot study. Substitute the values of Z=1.96, e=0.05 and S = 0.53453 in (1), we get the required sample size as 100 approximately and this is the lower limit of the sample size.

Reliability, validity and Equivalence of items

The reliability of the 29 services quality items was checked by using the reliability technique of Cronbach's Alpha. The result shows that the reliability of the services quality items was 90.9%. This shows the services quality items achieved high internal consistency more than the recommended level of 60% proposed by nunnally and bernstein. Similarly, pooled analysis of checking the reliability was also done and the results of the Cronbach's Alpha is

92%. Moreover the researcher utilized the Hotelling's T- Squared test to check the mean differences among the 29 services quality items. The results found that the means of the 29 services quality items in the instruments are differed significantly at 5% and 1% level respectively. This shows the services quality items conveyed different meaning to the policyholders, but not the same. Moreover the researcher has also conducted the confirmatory factor analysis for the services quality items. The result of the confirmatory analysis confirmed that the model fitness is more than 60% and root mean square residual is close to 'Zero'. This shows that the model for measuring the services quality of LIC was valid one and the model is fit to evaluate the service quality of LIC. Hence we came to a conclusion that the instrument is feasible and reliable.

COLLECTION OF DATA

The Instrument was structured and it was prepared to measure the service quality of LIC in Tiruchirappalli district. The questionnaire was classified into three different parts. Part I elucidates 6 personal and demographic variables of policyholders. Part II comprised of 6 questions about the rational profile of the policyholders and in part III it exhibits the 29 services quality items under the 5 dimensions namely assurance(11items), personalized financial planning(4), similarity with agent(2), tangibles (3), corporate image(2), and competence(7) respectively.

ANALYSIS OF DATA

After the data collection was over, the researcher analyzed the collected data with help of computerized statistical packages such as SPSS15 (statistical package for social sciences) and AMOS 16 (analysis of moment structure). It is implicitly assumed that the 29 services quality items were followed a multivariate normal distribution. Structural equation modeling was utilized by the researcher and a multidimensional model was proposed to scrutinize and to evaluate the service quality of LIC in Tiruchirappali district.

Table 1. Personal, demographic and rational profile of policyholders

		No.of policyholders	Percent
Gender	Male	89	89
	Female	11	11
Age	20-30	25	25
	31-40	37	37
	41-50	20	20
	Above 50	18	18
Occupation	Private employess	30	30
	Govt.employee	23	23
	Businessman	31	31
	Professionals	10	10
	Others	6	6
Qualification School level		36	36
	UG	24	24
	PG	32	32
	Technical	6	6
	Others	2	2
No. of family members	1	6	6
	2	20	20
	3	37	37
	4	26	26
	5	11	11
Policy name	Whole life	0	0
	Endownment + whole life	12	12
	Endowment	58	58
	Money back	17	17
	Childrens policy	4	4
	Ulip policy	9	9
Reasons	Tax Relief	25	25
	Savings	50	50
	Security	25	25
Inducers	Agent	61	61
	Friends	25	25
	Neighbors	4	4
	Relatives	10	10

The above table(1) shows that the profile of policyholders. Out of 100 respondents, 89% of the respondents belong to male category, 37% of respondents are between 31-40 years age category and majority of them are businessmen and belongs to PG qualification and 3member group and majority of them are having endowment polity for saving benefit and they took the policy through agent.

Structural equation model

Table 2. impact of assurance on its indicators.

Latent Variable: Assurance (X_1)

Indicators	Unstandardised co-efficient	Standardised co-efficient	Std. error	Critical ratio	p-value
Employees consistent courteousness (Y_1)	1.000	0.417	-	-	-
Trustful agents (Y2)	1.357	0.638	0.360	3.771	0.00
Agent risk profile assessment (Y3)	1.627	0.601	0.442	3.682	0.00
Conscious efforts listening (Y4)	1.765	0.750	0.442	3.992	0.00
Clear explanations of policies (Y5)	1.427	0.672	0.371	3.846	0.00
Employees good knowledge training (Y6)	1.201	0.665	0.313	3.832	0.00
Clear terms and conditions (Y7)	1.202	0.505	0.354	3.395	0.00
Customers best interest (Y8)	0.977	0.529	0.281	3.475	0.00
Good approaches to customers (Y9)	1.251	0.568	0.348	3.592	0.00
Agents clear presentation (Y10)	1.687	0.764	0.420	4.015	0.00
Understand needs of customer (Y_{11})	1.467	0.682	0.379	3.867	0.00

$\hat{Y}_i = й_i X_1 + \hat{e}_i$ (i= 1 to 11) ------- (1)

Where $\hat{Y}_i$ is the estimated score of indicators
$й_i$ is the estimated path co-efficient
$\hat{e}_i$ is the estimated measurement error

Table (2) shows the result of the confirmatory factor analysis and the impact of assurance on the indicators variables. Equation (1) explains that, if the life insurance corporation changes the dimensions of assurance by one unit there will be 0.977 units increase in the response score of the variable customer best interest. Similarly the Unstandardised path co-efficient of the indicator variables such as agents risk profile assessment, consciousness efforts & listening, Agents clear presentation are greater when compared to other variables. Moreover the result of the critical test shows the calculated path co-efficient are statistically significantly at 1% level. Hence it can be concluded that the dimensions gives more contributed to the indicators namely agents risk profile assessment, consciousness efforts & listening and Agents clear presentation.

Table 3. impact of personalized financial planning on its indicators

Latent Variable: Personalized Financial Planning(X_2)

Indicators	Unstandardised co-efficient	Standardised co-efficient	Std error	Critical ratio	p-value
Serves customers preference (Y_{12})	1.000	0.827	-	-	-
Updation in new products (Y_{13})	1.031	0.684	0.159	6.504	0.00
Restructuring of policies(Y_{14})	0.926	0.705	0.138	6.700	0.00
Periodic contacts to policyholders (Y_{15})	0.490	0.243	0.220	2.225	0.026

$\hat{Y}_i = й_i X_2 + \hat{e}_i$ (i= 12 to 15) ------- (1)

Where $\hat{Y}_i$ is the estimated score of indicators.
$й_i$ is the estimated path co-efficients.
$\hat{e}_i$ is the estimated measurement error

Table (3) describes the result of the confirmatory factor analysis and the impact of personalized financial planning on the indicators variables. Equation (1) explains that, if the life insurance corporation changes the dimensions of personalized financial planning by one unit there will be 0.490 units increase in the response score of the variable periodic contacts to policyholders. Similarly the unstandardised path co-efficient of the indicator variable updation in new products are greater when compared to other variables. Moreover the result of the critical test shows that the calculated path co-efficient are statistically significantly at 1% level. Hence it can be concluded that the dimensions gives more contribution to the indicators namely serves customers preference, updation in products and restructuring of policies.

Table 4.impact of similarity with agent on its indicators

Latent Variable: Similarity with Agent (X_3)

Indicators	Unstandardised co-efficient	Standardised Co-efficient	Standard error	Critical ratio	p-value
Agents relate their characteristics (Y_{16})	1.000	0.912	-	-	-
Agents view points belief (Y_{17})	0.842	0.799	0.145	5.789	0.00

$\hat{Y}_i = й_i X_3 + \hat{e}_i$ (i= 16 to 17) ------- (1)

Where $\hat{Y}_i$ is the estimated score of indicators.
$й_i$ is the estimated path co-efficients.
$\hat{e}_i$ is the estimated measurement error

Table(4) exhibits the result of the confirmatory factor analysis and the impact of similarity with agent on the indicators variables. Equation (1) explains that, if the life insurance corporation changes the dimensions of similarity with agent by one unit there will be 0.842 units increase in the response score of agents view points and belief. Similarly the unstandardised path co-efficient of the indicator variable agents relate their characteristics are greater when compared to other variable. Moreover the result of the critical test shows that the

calculated path co-efficient are statistically significantly at 1% level. Hence it can be concluded that the dimensions gives more contribution to the indicators namely agents relate their characteristics.

Table 5.Impact of tangibles on its indicators

Latent Variable: Tangibles (X_4)

Indicators	Unstandardised Co-efficient	Standardised co-efficient	Standard error	Critical ratio	p-value
Employees professional appearance (Y_{18})	1.000	0.676	-	-	-
Good credentials (Y_{19})	0.652	0.511	0.141	4.609	0.00
Modern aids equipments (Y_{20})	1.079	0.800	0.158	6.836	0.00

$\hat{Y}_i = \text{й}_i X_4 + \hat{e}_i$ (i= 18 to 20) ------- (1)

Where $\hat{Y}_i$ is the estimated score of indicators.
й_i is the estimated path co-efficients.
$\hat{e}_i$ is the estimated measurement error

Table (5) describes the result of the confirmatory factor analysis and the impact of tangibles on the indicators variables. Equation (1) explains that, if the life insurance corporation changes the dimensions of tangibles by one unit there will be 0.652 units increase in the response score of good credentials. Similarly the unstandardised path co-efficient of the indicator variable modern aids and equipments are greater when compared to other variables. Moreover the result of the critical test shows that the calculated path co-efficient are statistically significantly at 1% level. Hence it can be concluded that the dimensions gives more contribution to the indicators namely modern aids and equipments and employees professional appearance.

Table 6.Impact of corporate image on its indicators

Latent Variable: Corporate Image (X_5)

Indicators	Unstandardised co-efficient	Standardised Co-efficient	Standard error	Critical ratio	p-value
Financially stableness (Y_{21})	1.000	0.672	-	-	-
Innovations & creativeness (Y_{22})	1.416	0.818	0.298	4.751	0.00

$\hat{Y}_i = \text{й}_i X_5 + \hat{e}_i$ (i= 21 to 22) ------- (1)

Where $\hat{Y}_i$ is the estimated score of indicators.
й_i is the estimated path co-efficients.
$\hat{e}_i$ is the estimated measurement error

Table (6) shows the result of the confirmatory factor analysis and the impact of corporate image on the indicators variables. Equation (1) explains that, if the life insurance corporation changes the dimensions of corporate image by one unit there will be 1.000 units increase in the response score of financial stableness. Similarly the unstandardised path co-efficient of the indicator variable innovations and creativeness company are greater when compared to other variable. Moreover the result of the critical test shows that the calculated path co-efficient are statistically significantly at 1% level. Hence it can be concluded that the dimension gives more contribution to the indicator namely innovations and creativeness.

Table 7.Impact of competence on its indicators

Latent Variable: Competence (X_6)

Indicators	Unstandardised co-efficient	Standardised co-efficient	Standard error	Critical ratio	p-value
Good reputation(Y_{23})	1.000	0.418	-	-	-
Efficient administration (Y_{24})	2.783	0.756	0.688	4.046	0.00
Willingness to help customers (Y_{25})	2.956	0.726	0.740	3.994	0.00
Prompt response to customers (Y_{26})	2.182	0.704	0.552	3.953	0.00
Promised service (Y_{27})	2.036	0.660	0.527	3.862	0.00
Handling problems in time (Y_{28})	2.810	0.760	0.693	4.053	0.00
Time promised service (Y_{29})	2.519	0.762	0.621	4.057	0.00

$\hat{Y}_i = \text{й}_i X_6 + \hat{e}_i$ (i= 23 to 29) ------- (1)

Where $\hat{Y}_i$ is the estimated score of indicators.
й_i is the estimated path co-efficients.
$\hat{e}_i$ is the estimated measurement error

Table (7) depicts the result of the confirmatory factor analysis and the impact of competence on the indicators variables. Equation (1) explains that, if the life insurance corporation changes the dimensions of competence by one unit there will be 1.000 units increase in the response score of the variable Good reputation. Similarly the unstandardised path co-efficient of the indicator variables willingness to help customers, handling problems in time and prompt response to customers are greater when compared to other variables. Moreover the result of the critical test shows that the calculated path co-efficient are statistically significantly at 1% level. Hence it can be concluded that the dimensions gives more contribution to the indicators namely willingness to help customers, handling problems in time and prompt response to customers.

Table 8.Contribution of various dimensions to service quality

Latent Dependent Variable – Service Quality (Z)

Latent dependent variable	Unstandardised co-efficient	Standardized co-efficient	Rank
Assurance (X_1)	0.100	0.040	4
Personalized financial planning (X_2)	0.119	0.079	2
Similarity with agent (X_3)	0.080	0.088	1
Tangibles (X_4)	0.114	0.065	3
Corporate image (X_5)	0.117	0.065	3
Competence (X_6)	0.153	0.040	4

$$\check{Z}=0.100X_1 + 0.119X_2 + 0.080X_3 + 0.114X_4 + 0.117X_5 + 0.153X_6 + \hat{S}$$

Where $\check{Z}$ is the estimated service quality score.
$\hat{S}$ is the estimated measurement error.

Table(8) reveals the contribution of the dimensions such as assurance, personalized financial planning, similarity with agent, tangibles, corporate image and competence to the service quality of LIC of India in Tiruchirappalli district.   Equation (1) shows that, if the LIC changes the assurance dimension by one unit there will be 0.100 units increases in the service quality of LIC of India in Tiruchirappalli, when other dimensions are kept constant and vice versa.   Among the six dimensions, similarity with agent and personalized financial planning and tangibles are gives more contribution to the service quality when compared to other dimensions.

Table 9.Variance-co-variance matrix

| Indicators	Assurance	Personalised Financial Planning	Similarity with Agent	Tangibles	Corporate Image	Competence
Assurance	0.172	0.169**	0.196**	0.163**	0.093*	0.079**
Personalised financial planning	-	0.484	0.113	0.275**	0.170**	0.135**
Similarity with agent	-	-	1.303	0.121	0.291*	0.076
Tangibles	-	-	-	0.350	0.192**	0.152**
Corporate image	-	-	-	-	0.331	0.083**
Competence	-	-	-	-	-	0.74

*Critical ratio that significant at 1% level. GFI =0.754 RMR=0.051
Chi-square test value=1798.783 AGFI =0.705 RMSEA=0.095 d.f= 362 P-value<0.01

Table (9) visualizes the variance co-variance relationship among the dimensions of service quality.   From the above table it is identified that there is a strong relationship among the dimensions of service quality and it is confirmed by critical test ratio which gives the estimated variance co-variance among the dimensions are statistically significant at 1%level.   This shows that, if LIC changes any one of the dimensions of service quality, obviously it will affect the other dimensions.   Moreover, the result of the chi-square test confirms the proposal model of evaluating service quality is statistically and pragmatically significant at 1% level.   Likewise the goodness of fit index (GFI) is 75.4% and adjusted goodness of fit index (AGFI) is 70.5% revealed that the model fitness is close to the recommended level of 0.7.   Similarly the root mean residual (RMR) 0.051 and root mean square error of approximation (RMSEA) 0.095 are the good evidence, which shows that the estimated error in evaluating the service quality is minimum as well as close to Zero.   Hence it can be concluded that the proposed model in evaluating the service quality of LIC is valid and reliable.
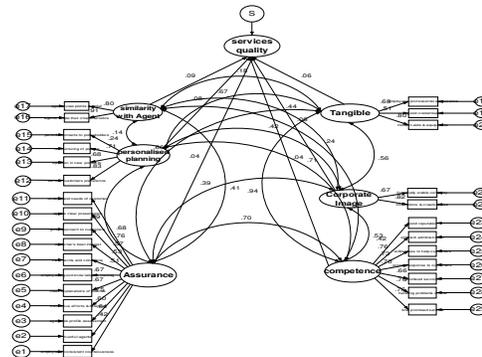
Suggestions and Recommendations:

1. To increase the level of insurance penetration LIC may focus on bringing products that   suit to the rural customers.

2. The company if possible should invest in advertising, conduct road shows, and spend money on Hoardings, so that it can better propagate awareness about its various lesser   known products.

3. LIC should also tie up with several other banks apart from the existing ones to sell its products i.e. through banc assurance.

4. The company has the option of tying up with local NGO's for selling its rural insurance products.

5. Customer friendly documentation i.e. it should be made easier and faster.

6. LIC should keep a check that its agents equally promote all its
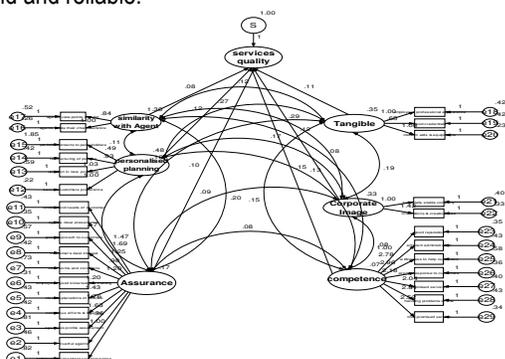
products.

7. LIC may provide additional funds to its development officers and agents.

8. All the hidden charges should clearly be stated in the form and explained by the agent and LIC should provide better training to its agents.

9. Claim settlement process should be made fast and must not involve lengthy decision making process.

10. Some special focus should be laid on individual risk coverage while designing the   products.

CONCLUSION

The entry of private sector insurance companies into the Indian insurance sector triggered off a series of changes in the industry. Even with the stiff competition in the market place, it is evident from the study that the public sector giant LIC dominates the Indian insurance industry. In today's competitive world, customer satisfaction has become an important aspect to retain the customers, not only to grow but also to serve. Increased competition, wide range of product offerings and multiple distribution channels cause companies to value satisfied and highly profitable customers. Customer service is the critical success factor in a company and providing top notch customer service differentiates great customer service from indifferent customer service. In the fast paced environment that surrounds industries today, companies find themselves faced with the pressure to discover foolproof ways to manage their businesses. Insurance industry in India is no exception and is undergoing revolutionary changes. Competition has been central to the agenda of companies and it has become one of the enduring themes of our time. The Insurance Industry today is experiencing intense competition and the major players, including LIC have come under pressure. In lieu of this, retaining a Customer is cheaper than finding a new Customer. LIC should focus on assurance and empathy to further strengthen the level of satisfaction. Major players in the market especially LIC have to concentrate on retaining existing customers, which could offer huge business potential. Time based competition, quality, product range, timely advertisement, follow up, prompt and error free service are the key ingredients for the better service and it will boost up the sales.

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