Examining Expected and Perceived Service Quality in Life Insurance Corporation of India

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ABSTRACT

Insurance services in India are passing through a sea change, opening up of the industry had placed numerous severe threats and challenges to Life Insurance Corporation of India (LIC), the only public sector life insurance service provider in the country. Though, it is still the biggest player of the industry, but it has significantly lost its market share and consumer base to speedily growing private sector companies in last decade. Therefore to find out what went wrong with this Indian life insurance industry giant, the present study is conducted. The study ascertains the expected and perceived service quality levels of customers of the company so that the gaps in service quality can measured and inferences can be drawn regarding the status of the customer services of the company. To measure the two dimensions, the study derives the help from five dimension service quality model developed by Sureshchandar, Rajendran and Kamalanabhan, (2001). The findings suggest that there exist a significant negative gap in service quality expected and perceived by the customers of the selected company. So it is recommended that LIC should think strategically to improve its customer services on selected dimensions of service quality so that the status of market leader can be maintained.

Keywords: Service Quality, Perceived Service Quality, Customer Satisfaction and Customer Loyalty

1. INTRODUCTION

In India, government has the onus to regulate, administer and promote insurance sector. There are primarily two legislations that govern the sector: The Insurance Act 1938 and the IRDA Act 1999. The insurance sector in India has undergone a full circle from being an open competitive market to nationalization and back to a liberalized market again. Tracing the developments in the Indian insurance sector reveals the 360 degree turn witnessed over a period of almost two centuries.

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

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

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

It is evident from the foregoing discussion that the public sector player LIC is now facing the tune of time, and this time is really a testing time. And to pass this acid test it is must for LIC to improve its marketing strategies, especially customer relation strategies. Also it is well accepted that there is a relationship between service quality and customer satisfaction, customer satisfaction and customer loyalty, customer loyalty and sustainable profitability. So in the light of above construct, this study is purposed to determine the level of service quality delivered as a whole and on selected service quality dimensions in LIC.

2. REVIEW OF LITERATURE

Conceptual Framework Service Quality

To understand the concept of service quality better, discussion of its components, i.e. service and quality is presented first. “Services are processes of activities aiming to provide solutions to customers’ problems, with most other characteristics of services being consequences of their process nature (Gronroos, 2000; 2001)”.

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

Very often services are produced during service employee-customer encounters (Drew-Rosen et al., 2003), services are “heterogeneous” as the performance of humans, whether employee of customer, is not same all different service encounters. Services are heterogeneous even when delivered through automated channels due to varying customer behaviour in interacting with automated and information technology using electronic machines of this new era tech world.

Although there are services where tangibles are used but essentially services are intangibles, some time partially and some time fully. The essence of services is “intangibility” (Zeithaml et al., 1990) that leads customers to perceive services in subjective and often highly abstract ways (Gronroos, 2000). Services are perceived as performances, and these performances are “what” the service provides and “how” it is delivered, depending on front-line employees’ interactions with customers, the organization and its facilities. A number of “peripheral” services facilitate the offering of the core service (Gronroos, 2000). Fitzsimmons and Fitzsimmons (2001) define a service bundle as a package of goods and services consisting of supporting facilities, facilitating goods, and explicit services.

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

Intangibility implies that the criteria for a flawless service are not only less specific than the criteria for a defect-free tangible good (Berry and Parasuraman, 1991) but also very complex in nature and very difficult to realize. Marketers view service quality as the level needed to make the service acceptable in the market place and try to ascertain certain standard of service quality prior to delivery of service to customers.

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

Service Quality Assessment
Accepting the definition of perceived service quality as the result of comparing actual service delivery with prior experience (Gro¨nroos, 1982; 1984; Lehtinen and Lehtinen, 1982; Lewis and Booms, 1983; Parasuraman et al., 1985), researchers have generally followed two main theoretical perspectives. The Nordic (European) (Gro¨nroos, 1982, 1984) perspective views service quality as having two dimensions: “technical” and “functional” quality, reflecting the service outcome and the service process respectively. Customers’ perceptions of these two dimensions are filtered through the service firm’s image.

The American model defines service quality as the discrepancy between expected and perceived service through five core components:

Reliability – performing the promised service dependably and accurately;
Responsiveness – helping customers and providing prompt service;
Assurance – inspiring trust and confidence;
Empathy – providing caring, individualized attention to customers; and
Tangibles – the tangible elements of service (Parasuraman et al., 1988).

Although the American model dominates the literature there is no unanimity between researchers on which of the two, or some other, better reflects perceived service quality (Brady and Cronin, 2001). However, another service quality model which was used by Sureshchandar et al. (2001) have stated that the customer’s perceived quality depends upon five factors:

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

The core service refers to the essence of a service. In a service sector the service features offered are as important as how they are delivered. Human element of service delivery refers to all aspects (reliability, responsiveness, assurance empathy, moments of truth, critical incident and recovery) that will fall under the domain of the human element in the service delivery. The non-human element in the service delivery is in contrast to the human element. Service delivery processes should be perfectly standardized, streamlined, and simplified so that customers can receive the service without any hassles. The tangible of the service facility refers to the equipment, machinery, employee appearance, etc., or the man-made physical environment, popularly known as the “servicescapes”. The social responsibility is the obligation of organization management to make decision and take actions that will enhance the welfare and interests of society as well as the organization. When an organization shows enough evidence on its Social responsibility it is natural to attract more customers.

Acknowledging the importance of the model used by Sureshchander et.al (2001), present study has followed the same model and dimensions with certain customized sub dimensions. These sub dimensions were selected after a thorough study and critical evaluation of service factors regarding life insurance sector in India.

3. OBJECTIVES AND HYPOTHESES OF THE STUDY

(i) To assess the level of service quality expected and perceived by the customers of LIC.

(ii) To assess the gap in service quality expected and perceived by the customers of LIC.

In a sync to the above objectives, the study attempts to test the following null hypothesis:

$H_{01}$. There is no significant difference in service quality expected and perceived in LIC.
H\textsubscript{02}. There is no significant difference in service quality expected and perceived on core product dimension in LIC.

H\textsubscript{03}. There is no significant difference in service quality expected and perceived on human element dimension in LIC.

H\textsubscript{04}. There is no significant difference in service quality expected and perceived on systemization of service dimension in LIC.

H\textsubscript{05}. There is no significant difference in service quality expected and perceived on tangibles of service dimension in LIC.

H\textsubscript{06}. There is no significant difference in service quality expected and perceived on social responsibility dimension in LIC.

4. RESEARCH METHODOLOGY

Present study is descriptive in nature and is empirical one. Apart from using all kind of literature available, a survey of customer was conducted during period of 2011-2012. The population of the survey consist of all the customers of Life Insurance Corporation of India residing in State of Haryana, Capital of India- Delhi, and U.T of Haryana and Punjab-Chandigarh.

A sample of 180 respondents, comprising 60 each from selected geographical units was chosen with the help of multistage random sampling process. Voter lists of the selected cities are taken in to consideration to choose the respondents randomly. The responses are measured on a customized questionnaire based on Service Quality Model by Sureshchander et.al (2001). Seven Point Likert Scale was used by the customers to rank their responses the various items of the questionnaire. The model measures expected and perceived service quality on five dimensions i.e. Core service, Human elements of service delivery, Non-human element of service delivery, Tangibles of services and Social responsibility. Further data have been organized, tabulated, analyzed and interpreted with the help statistical techniques including Mean, Standard Deviation and t-test.

5. DATA ANALYSIS AND INTERPRETATION

Overall Service Quality Expected, Perceived, Gaps and weights

To measure expected service quality by the customer of LIC, all respondents were asked to show the extent to which they think life insurance companies should offer service quality at various dimensions. And further, it is clearly stated to the respondents that the research aims to know the ranking of their expectation about service quality on seven-point likert scale given in survey schedule.

The expected service quality responses of selected respondents are explained by mean and standard deviation values which are given in Table 1.

<table>
<thead>
<tr>
<th>Summary Variables</th>
<th>Mean</th>
<th>Std. Deviation</th>
</tr>
</thead>
<tbody>
<tr>
<td>Expected Service Quality</td>
<td>6.5631</td>
<td>.12685</td>
</tr>
<tr>
<td>Perceived Service Quality</td>
<td>4.2863</td>
<td>.24811</td>
</tr>
<tr>
<td>Gap in Service Quality</td>
<td>-2.2768</td>
<td>.22283</td>
</tr>
</tbody>
</table>

Source: Customer Survey.

The average expected service quality score for the respondents is assessed 6.5631 which is certainly very high and falls in strongly agree region of rankings which also means customers of the selected company expect very high level of service quality.

To measure perceived service quality by the customers of LIC, all respondents were asked to show the extent to which they feel or experience about their life insurance company. It is important to mention here that the dimensions are same as used in measuring customer service quality expectation.
The perceived service quality scores of selected respondents are shown in Table 1. The mean perceived service quality score for the respondents is assessed 4.2863 which is very low than that of service quality expected and falls in region close to neutral response. This reflects that customers feel that quality of services they are offered are not up to the level of their expectation.

To measure customer service quality gap, responses of selected customer respondents on expected service quality are subtracted from responses on perceived service quality. Average gap scores of the respondents are given in Table 1. The customer service quality gap score is assessed -2.2768, which is considered very high and as this gap is in negative zone which means there is an acute shortfall from life insurance service providers in delivering expected service quality.

**Dimensionwise Service Quality Expected, Perceived and Gaps**

The expected and perceived service quality scores of the respondents on the selected five dimensions service quality are summarized in Table 2.

<table>
<thead>
<tr>
<th>Summary Measures</th>
<th>Core Product</th>
<th>Human Element</th>
<th>Systemisation</th>
<th>Tangibility</th>
<th>social responsibility</th>
</tr>
</thead>
<tbody>
<tr>
<td>Perceived Service Quality</td>
<td>5.1600</td>
<td>4.0144</td>
<td>4.0714</td>
<td>3.5540</td>
<td>4.6317</td>
</tr>
<tr>
<td>Service Quality Gap</td>
<td>-1.7343</td>
<td>-2.7311</td>
<td>-2.2986</td>
<td>-2.8500</td>
<td>-1.7700</td>
</tr>
<tr>
<td>Weighted Expected Service Quality</td>
<td>186.3929</td>
<td>154.8611</td>
<td>116.7571</td>
<td>121.5500</td>
<td>81.5500</td>
</tr>
<tr>
<td>Weighted Perceived Service Quality</td>
<td>139.4786</td>
<td>91.5833</td>
<td>74.5714</td>
<td>68.0700</td>
<td>59.0500</td>
</tr>
<tr>
<td>Weighted Service Quality Gap</td>
<td>-46.9143</td>
<td>-63.2778</td>
<td>-42.1857</td>
<td>-53.4800</td>
<td>-22.5000</td>
</tr>
</tbody>
</table>

Source: Customer Survey

**Core Product in Service Delivery**

The average expected service quality score of first dimension ‘core product’ is 6.8943 which is very close to the strongly agree region which means that expectations of customers are very high this dimensions of service quality. Also core product expected service quality score is highest of all the selected five dimensions. This also hints that core product of life insurance service providers is topmost priority of the customers. Further, the weighted expected service quality score turns at 186.3929 on core product dimension, which is also very high and the highest of all dimensions.

The perceived service quality score of the respondents regarding ‘core product’ is 5.1600 which is very close to somewhat agree level. If compared with scores of other dimensions, core product dimension score is the highest and this means customers of LIC are getting comparatively better service quality level on their topmost priority. Further the weighted perceived quality score of 139.4786 on core product dimension is also very high and the highest of all dimensions. This also confirms the interpretation made on the basis of unweighted score.

The service quality gap score of the respondents regarding ‘core product’ is -1.7343 which is quite high but the lowest of all dimensions which means company is relatively doing better on core product dimension in service front.

**Human element in service delivery**

Here, mean expected service quality score is 6.7456 which indicate very high expectation. This score is also the second highest score, relatively. This also hints that core product of life insurance service providers is second topmost priority of the customers. Further the weighted expected quality score of 154.8611 on this dimension, which is also quite high and second highest of all dimensions, which confirms the interpretations made on the basis of unweighted score.

The perceived service quality score is measured 4.0144 regarding this dimension, which is very close to neutral response level. This means customers are neither agree or nor disagree of the perceived level of service quality on this dimension.
If compared with scores of other dimensions, human element dimension scores is second lowest after tangibility in service scores of perceived service quality and this means customers of LIC are getting poor services on human fronts which is their second topmost priority. Further the weighted perceived quality score of 91.5833, which is also very low and confirms the interpretation made on the basis of unweighted score.

The gap score of -2.7311 on this dimension is the second highest and when weights are applied to it becomes the highest gap score among all dimensions of service quality. Hence this is a matter of great concern for the organization. So, there require a substantial improvement of service quality on human element front.

**Systemisation of Service Delivery**

The expected service quality score on this dimensions is 6.3700 which is close to the agree region which means that expectations of customers are also high regarding ‘systemization dimension’. Though the expected service quality score is lowest in the selected five dimensions but difference is very small. Further the weighted expected quality score of 116.7571 on this dimension, which is also quite high but comes second lowest in all of the dimensions.

The perceived service quality score on this dimension is 4.0714 which is neutral response level. This means customers neither agree or nor disagree of the perceived level of service quality on this dimension and they are not certainly agree that LIC is providing service quality on this dimension. Further, the weighted perceived quality score of 91.5833 on this dimension is also very low and confirm the interpretation made on the basis of unweighted score.

The service quality gap score on this dimension is -2.2986, which is the third highest gap score. But when gaps are applied on it becomes lowest gap score, which means customers find this dimension lesser important, relatively. But irrespective of this fact, it requires lots of improvement on systemization of service front.

**Tangibles of Services**

The expected service quality score here is 6.4040 which is in middle of agree and strongly agree region. This means customers of LIC have also high expectation from life insurance providers on this dimension. Further the weighted expected quality score of 121.5500 on this dimension is also quite high and confirm the interpretation made on the basis of unweighted scores.

The perceived service quality score of the respondents tabulated in Table 2.0 is 4.6317 which is in middle of neutral and somewhat agree response level. This means customers are somewhat disagree of the perceived level of service quality on tangibles of services dimension. Further the weighted perceived quality score of 91.5833 on this dimension is also very low and confirm the interpretation made on the basis of unweighted score.

The gap score here is -2.8500 which highest of all gap scores. This implies that the organization is performing poorer on this dimension and need to improve a lot. The weighted gap score also confirms the same.

**Social Responsibility**

Here, the expected service quality score is 6.4017 which lies in middle of agree and strongly agree region. This means customers of LIC have accepted this dimension is very important in providing service quality. Further the weighted expected quality score of 81.5500 on this dimension, which is also quite high but lowest among all dimensions.

The perceived service quality score on this dimension is 4.6317 which is close to somewhat agree response level. This means customers are somewhat convinced that LIC is performing in a socially responsible way. Further the weighted perceived quality score of 91.5833 on this dimension is also very low, and confirm customer give very low weights to service quality perception on social responsibility front.

The service quality gap score here is -1.7700 which is quite high and comes as second highest score. But when weights are applied to it becomes the lowest score, which means customers found social responsibility as their lowest priority. But irrespective of this fact company need to improve service quality on this front a lot.

**Dimensionwise Service Quality Weights**

To measure the comparative importance of selected service quality dimensions, customers were simply asked to allocate 100 points among selected dimension of service quality according to their priority of significance to them.
The average score are tabulated in Table 3 which clearly shows that Core Product in Service with score of 27.0500 is the topmost priority of LIC customers, second topmost priority is Human Element in Service with score of 22.9500, Tangibles of Service is middlemost priority with score of 18.9500, Systemisation of Service is second lowest dimension with score of 18.3000 and lowest in list come Social Responsibility of life insurance provider.

<table>
<thead>
<tr>
<th>Summary Variables</th>
<th>Core Product</th>
<th>Human element</th>
<th>Systemization</th>
<th>Tangibles</th>
<th>Social Responsibility</th>
</tr>
</thead>
<tbody>
<tr>
<td>Mean Weights*</td>
<td>27.0500</td>
<td>22.9500</td>
<td>18.3000</td>
<td>18.9500</td>
<td>12.7500</td>
</tr>
<tr>
<td>Std. Deviation</td>
<td>4.4353</td>
<td>3.89865</td>
<td>2.86215</td>
<td>4.03864</td>
<td>4.28617</td>
</tr>
</tbody>
</table>

Source: Customer Survey
*Weights are assigned by the respondents out of total 100 points.

6. HYPOTHESIS TESTING

To test the drawn hypothesis Paired t Test was applied on averages of collected responses of LIC customers and output of the analysis is exhibited in Table 4. The output gives t value, degree of freedom, significance level and 95% confidence interval for the mean.

<table>
<thead>
<tr>
<th>Paired Differences</th>
<th>t</th>
<th>df</th>
<th>Sig. (2-tailed)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Mean</td>
<td>Std. Deviation</td>
<td>Std. Error Mean</td>
<td>95% Confidence Interval of the Difference</td>
</tr>
<tr>
<td>E – P</td>
<td>2.2768</td>
<td>.22283</td>
<td>.02228</td>
</tr>
<tr>
<td>CPE – CPP</td>
<td>1.7343</td>
<td>.32106</td>
<td>.03211</td>
</tr>
<tr>
<td>HEE – HEP</td>
<td>2.7311</td>
<td>.47304</td>
<td>.04730</td>
</tr>
<tr>
<td>SSE – SSP</td>
<td>2.2986</td>
<td>.46969</td>
<td>.04697</td>
</tr>
<tr>
<td>TSE – TSP</td>
<td>2.8500</td>
<td>.67777</td>
<td>.06777</td>
</tr>
<tr>
<td>SRE – SRP</td>
<td>1.7700</td>
<td>.44808</td>
<td>.04481</td>
</tr>
</tbody>
</table>

Here,
E= Overall Expected Service Quality
P= Overall Perceived Service Quality
CP= Core Product
HE= Human Element
SS= Systemization of Service
TS= Tangibles of Service
SR= Social Responsibility

Analysis of Results of Paired t Test:

H₀₁: There is no significant difference in service quality expected and perceived in LIC.
t value of 102.176 for 179 degree of freedom (df) is found significant as at 0.000 level. Therefore, null hypothesis is rejected. Thus, there is a significant difference in service quality expected and perceived by the customers of LIC.

H₀₂. There is no significant difference in service quality expected and perceived on core product dimension in LIC.

t value of 54.017 for 179 degree of freedom (df) is found significant as at 0.000 level. Therefore, null hypothesis is rejected. Thus, there is a significant difference in service quality expected and perceived by the customers of LIC on core product dimension of service quality.

H₀₃. There is no significant difference in service quality expected and perceived human element dimension in LIC.

t value of 57.736 for 179 degree of freedom (df) is found significant as at 0.000 level. Therefore, null hypothesis is rejected. Thus, there is a significant difference in service quality expected and perceived by the customers of LIC on core human element dimension of service quality.

H₀₄. There is no significant difference in service quality expected and perceived on systemization of service dimension in LIC.

t value of 48.938 for 179 degree of freedom (df) is found significant as at 0.000 level. Therefore, null hypothesis is rejected. Thus, there is a significant difference in service quality expected and perceived by the customers of LIC on systemization of service dimension of service quality.

H₀₅. There is no significant difference in service quality expected and perceived on tangibles of service dimension in LIC.

t value of 42.053 for 179 degree of freedom (df) is found significant as at 0.000 level. Therefore, null hypothesis is rejected. Thus, there is a significant difference in service quality expected and perceived by the customers of LIC on tangibles of service dimension of service quality.

H₀₆. There is no significant difference in service quality expected and perceived on social responsibility dimension in LIC.

t value of 39.502 for 179 degree of freedom (df) is found significant as at 0.000 level. Therefore, null hypothesis is rejected. Thus, there is a significant difference in service quality expected and perceived by the customers of LIC on social responsibility dimension of service quality.

7. CONCLUSION

In Life Insurance Corporation of India, there is found a significant negative difference in level of service quality expected and service quality perceived by the customers. This leads to a huge service quality gap which is certainly not a good sign for the company’s ambitions. Possibly this could be one of the reasons why this largest Indian life insurance service provider is losing its market share. Service quality delivery gap in the company is comparatively higher on human element, tangibles of services and systemization of service fronts which is a matter of concern. The only respite for the company is at core product and social responsibility fronts where customer service quality gap is comparatively lesser. So the lesson here is that there is a lot to do for the customers by the company and to improve customer service, more efforts must be put to improve service quality on all selected dimensions. Finally, it can be said that customers of LIC has very high service quality expectations and to meet these expectations, certainly required more improved customer service quality strategies.

REFERENCES


