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Antecedents of Customer Perception of Service Quality of Life Insurance Corporation of India

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A sound service climate and subsequent delivery of quality services play a pivotal role in service organizations. Delivering quality service is considered an essential strategy for success and survival in today's competitive environment. In the initial years of liberalization, the Life Insurance Corporation (LIC) of India occupied a dominant position in the market, but the opening up of the insurance to the private sector has created stiff competition. With greater choice and increasing awareness, there is a continuous rise in the customers' expectations, and they demand better quality service. Thus, the study is conducted with the objective of ascertaining the policyholders' perception of service quality dimensions of LIC using the primary data collected from 600 life insurance policyholders in Coimbatore city, using interview schedule. Descriptive statistics, factor analysis and structural equation modeling were used. It has been proved that service quality perception and satisfaction were strongly and positively related to each other. Factors contributing to positive perception of LIC service were accuracy and accessibility, corporate image, honesty and competency, trust and confidence.

Introduction

Service quality is based on consumers' perception of the outcome of the service and their evaluation of the process by which the service was performed (Parasuraman *et al.*, 1985). To customers who are evaluating the quality of a service, it is their perception that counts, not what the service provider thinks. Service firms must understand the concept of service quality from the viewpoint of the customer, not from the viewpoint of the service firm or service provider (Jha, 2008). Life Insurance Corporation of India (LIC) is the only public sector life insurance

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provider in the country. The initial years of liberalization continued to see the LIC retain a dominant position in the market. The opening up of the insurance to the private sector has provided immense opportunities for both public and the private industry for better utilization of insurance facilities (Chaudhary *et al.*, 2014). The extent of competition between the LIC and the private sector insurers continues to intensify. Hence, it is essential for life insurance companies to develop a customer-centric approach for growth and survival. Service quality as a critical measure of organizational performance continues to compel the attention of servicing institutions and remains at the forefront of services marketing practice (Danaker, 1997). Higher service quality results in customer satisfaction and loyalty, greater willingness to recommend, reduction in complaints and improved customer retention rates (Magi and Julander, 1996).

Life insurance is a customer-based business where retention of existing customers is the biggest challenge in the present-day market competition (Yadav, 2011). The success of the life insurance business depends on fulfilling the gap between the customer perception and expectation of the policyholders of LIC. As a consequence, LIC of India has undergone increasing pressure with regard to the policyholder's requirements. The main challenge before the LIC is to constantly innovate new products to suit, ascertain changes in policyholder's behavior, changing lifestyle, government intervention, competitions, technology, distribution network, automation, technological advancement, service quality and customer relationship management. Therefore, further research to improve the understanding of industry's service quality is imperative. In this context, the present study aims to ascertain the policyholders' perception of service quality dimensions of LIC.

Literature Review

Customer expectations are beliefs about a service that serve as standards against which service performance is judged (Parasuraman *et al.*, 1993). According to Gronoos (1984), customers compared their expectations to their experience of service quality in forming judgments. The service quality as the perceived service quality of a given service will be the outcome of an evaluation process, where the consumer compares his expectations with the service he perceives he has received, i.e., he puts the perceived service against the expected service. The result of this process will be the perceived quality of the service. With increasing competition, customer retention or customer satisfaction strategies are becoming more important (Kurt and Hans, 1998). Parasuraman *et al.* (1985) proposed the gap model of service quality that operationalized service quality as the gap between expectation and performance perception of the customer. The issue for insurance business in the competitive environment is of knowing opportunities in managing services through tangibility and empathy (Reddy *et al.*, 2010).

Data and Methodology

Coimbatore district was selected as the locale of the study owing to the reason that it is one among the industrially developed and commercially vibrant districts of Tamil Nadu. According to the 2011 Census, the Taluk of Coimbatore had a population of 3,472,578, with 1,735,362 males and 1,737,216 females. Multi-stage sampling method was applied for the selection of the 600 sample respondents, particularly policyholders of LIC of India. Primary data were collected through personal interview with the insurance policyholders using structured interview schedule. The secondary data were collected from reports and publications of Insurance Regulatory Development Authority of India (IRDA), journals, magazines and websites. The data collected were analyzed statistically to identify the different determinants of quality services; factor analysis was applied; and to test behavioral outcomes of quality services, Structural Equation Models (SEM) were used. The Cronbach's alpha statistics was applied to test data reliability.

Results and Discussion

Distribution of Sample Respondents

The profile of the respondents related to the study is presented with distribution of respondents based on their socioeconomic status in Table 1.

Of the total respondents, 67% were male and 33% were female and all of them were life insurance policyholders of LIC of India. About 53% of the respondents were in the age group of 26 to 35 years. And 67% of the respondents were married and 33% of them were unmarried. It was observed that 29% were postgraduates and 24.3% of the respondents were graduates, about 21% of the respondents were professionals. A majority of the respondents were employed in government sector and 22.33% were employed in private sector. The distribution of respondents

Variable	Classification	No. of Respondents (600)	Percentage
Gender	Male	402	67.00
	Female	198	33.00
Age (in years)	Below 25	77	12.83
	26-30	143	23.83
	31-35	108	18.00
	36-40	84	14.00
	41-46	71	11.84
	Above 46	117	19.50

Table 1 (Cont.)

Variable	Classification	No. of Respondents (600)	Percentage
Marital Status	Married	428	67.00
	Unmarried	172	33.00
Educational Qualification	Higher Secondary	55	9.20
	Diploma	67	11.20
	Graduate	146	24.30
	Postgraduate	174	29.00
	Professionals	126	21.00
	Others	32	5.30
Occupation	Government Employee	159	26.50
	Private Employee	134	22.33
	Professionals	71	11.83
	Business	80	13.33
	Agriculture	30	5.00
	Others (Retired, Casual Workers)	126	21.00
Household Income (in ₹ per month)	Less than 20,000	234	39.00
	20,001-30,000	223	37.17
	30,001-40,000	91	15.17
	40,001-50,000	24	4.00
	Above 50,000	28	4.67

based on monthly household income reveals that of all the respondents, 39% respondents have monthly household income up to ₹20,000, 31.54% respondents have monthly household income between ₹20,001 and ₹30,000, 15.17% earned between ₹30,001 and ₹40,000, and the remaining respondents have monthly household income above ₹40,000.

Life Insurance Policies Held by the Respondents

Table 2 presents a complete picture of the distribution based on life insurance policies held by the respondents.

Endowment policy and money back policy were popular among a majority of the respondents, 17.70% have chosen whole life policy, 11.74% have chosen children's policy, followed by pension policy, ULIP plan, women's policy, medical policy and term insurance policies with the LIC. And 55.33% have insured their life for between ₹1,00,000 and ₹3,00,000, 29.83% have sum assurance up to ₹1,00,000, 8.67% have assurance between ₹3,00,000 and ₹5,00,000 and 6.17% have assurance above ₹5,00,000. As for the term period of policy, a majority of the respondents

Table 2: Life Insurance Policies Held by the Respondents			
Variable	Classification	No. of Respondents (600)	Percentage
Name of the Policy Taken	Children's Policy	132	11.74
	Endowment Policy	270	24.02
	Money Back Policy	231	20.55
	Joint Life Policy	82	7.30
	Pension Policy	70	6.23
	Women's Policy	36	3.20
	Whole Life Policy	199	17.70
	Unit-Linked Policy (ULIP)	42	3.74
	Medical Policy	38	3.38
	Term Policy	24	2.14
Sum Assured (in ₹)	Up to 1,00,000	179	29.83
	1,00,000-3,00,000	332	55.33
	3,00,000-5,00,000	52	8.67
	Above 5,00,000	37	6.17
Term Period of Policy (in years)	5-10	123	20.50
	10-15	306	51.00
	15-20	124	20.67
	Above 20	47	7.83

hold their policies between 10 and 15 years, 20.67% between 15 and 20 years, 20.5% between 5 and 10 years, and 7.83% above 20 years.

Measurement of Service Quality

In order to measure the service quality, Zeithmal *et al.* (1990) proposed the SERVQUAL metric, which has been used to assess the service quality perception of LIC of India. The dimensions, namely, tangibility, reliability, responsiveness, assurance and empathy were used with respective constructs. *Tangibility* represents the appearance of physical facilities, equipments, personnel and communication materials. *Reliability* is the ability to perform the promised service dependably and accurately. *Responsiveness* is the willingness to help customers and provide prompt service. *Assurance* is the knowledge, competence and courtesy of service employees and their ability to convey trust and confidence, and *Empathy* is the caring individualized attention provided to customers.

The SERVQUAL metric has been applied in a variety of settings: numerous large retail chains (Teas, 1994), banking and fast food restaurants (Cronin and Taylor,

1992) and healthcare industry (Babakus and Mangold, 1992; and Bowers *et al.*, 1994).

Reliability Coefficient

Before assessing the service quality, it was necessary to establish the reliability of the instrument for the collected data. The internal consistency of the SERVQUAL items was assessed by computing the reliability scale, namely, Cronbach's Alpha statistic, which is commonly used as a measure of the internal consistency or reliability. Looking at the reliability coefficient of five dimensions on Table 3, the alpha value is greater than 0.7 which is the cutoff recommended by Nunnally (1978) for the basic research. All the dimensions—tangibility, reliability, responsiveness, assurance and empathy—showed coefficient higher than 0.7.

Table 3: Overall Perception of the Services of LIC			
	Service Quality Dimensions	Cronbach's Alpha	Number of Items
Perception	Tangibility	0.893	5
	Reliability	0.876	7
	Responsiveness	0.797	4
	Assurance	0.910	9
	Empathy	0.774	9
Total		0.954	34
Expectation	Tangibility	0.895	5
	Reliability	0.862	7
	Responsiveness	0.768	4
	Assurance	0.860	9
	Empathy	0.863	9
Total		0.957	34

Factors Contributing to Perception of Service Quality of LIC

In order to provide a more detailed interpretation of the results, the 34-item scale was then factor analyzed using the principal component method with Varimax rotation. The factor analysis was done to group the variables that are highly correlated with regard to customer expectation of service quality of LIC. Those factors which had Eigenvalue of more than one were included. Kaiser-Meyer-Olkin (KMO) Measure of Sampling Adequacy (MSA) and Bartlett test of sphericity were applied to verify the adequacy and appropriateness of data for factor analysis, as shown in Table 4.

The value of KMO for overall matrix was found to be excellent (0.928) and Bartlett's test of sphericity was highly significant. The final factor solution, which met the criteria, included 34 items defined by six factors, namely, Accuracy and Accessibility, Corporate image, Honesty and Competency, Trust and Confidence.

Factor one resulted out of the constructs of tangibility and reliability dimensions, namely, 'Accuracy and Accessibility', which consists of error-free service (0.761),

Variable	Factor						h ²
	1	2	3	4	5	6	
T1: Staff Appearance	0.700	0.217	0.160	0.069	0.346	-0.024	0.688
T2: Branch Office Appearance	0.754	0.248	0.209	0.037	0.136	0.089	0.702
T3: Use of Latest Technology	0.593	0.329	0.187	0.162	0.428	0.094	0.713
T4: Information Availability	0.620	0.363	0.367	0.002	0.128	-0.278	0.744
T5: Memorable Advertisement	0.554	0.347	0.225	0.198	0.342	0.240	0.692
RL1: Error-Free Service	0.761	0.172	0.314	0.085	-0.166	5.632E-5	0.741
RL2: Fulfilling Promises	0.553	0.103	0.226	0.094	0.435	0.308	0.660
RL3: Competitive Pricing	0.624	0.321	0.311	0.057	0.242	0.229	0.703
RL4: Right Service	0.607	0.360	0.169	0.096	0.350	0.031	0.659
RL5: Customer Trust on Staff	0.658	0.441	-0.032	0.109	0.182	-0.025	0.674
RL6: Accurate Records	0.260	0.248	0.100	0.189	0.688	0.085	0.656
RL7: Guaranteed Performance	0.418	0.433	0.308	0.031	0.129	0.074	0.480
RS1: Customer Demanded Service in Time	0.278	0.137	0.369	0.149	0.543	-0.102	0.559
RS2: Prompt Service	0.469	0.144	0.600	0.030	0.136	0.257	0.686
RS3: Faster Service	0.348	0.280	0.446	0.097	0.386	0.166	0.584
RS4: Staff Willingness to Help	0.430	0.371	0.420	0.130	0.060	0.187	0.555
A1: Trustworthy and Honest	0.219	0.282	0.715	0.066	0.136	0.021	0.662
A2: Staff Knowledge and Competence	0.260	0.283	0.771	0.060	0.054	0.033	0.749
A3: Diagnosing Customer Problems	0.167	0.347	0.608	0.017	0.472	-0.101	0.751
A4: Prompt Decision	0.311	0.445	0.312	0.091	0.211	0.489	0.684
A5: Privacy of Information	0.178	0.643	0.152	0.120	0.483	0.240	0.774
A6: Assured Service by Agents	0.315	0.605	0.145	0.142	0.183	0.422	0.718
A7: Widely Known	0.162	0.711	0.160	0.110	0.405	0.134	0.751
A8: Liked by Customer	0.206	0.805	0.209	0.073	0.087	-0.086	0.754
A9: Unique	0.253	0.816	0.200	0.077	0.050	-0.003	0.778
E1: Personal Attention	0.342	0.760	0.260	0.029	-0.016	0.067	0.768

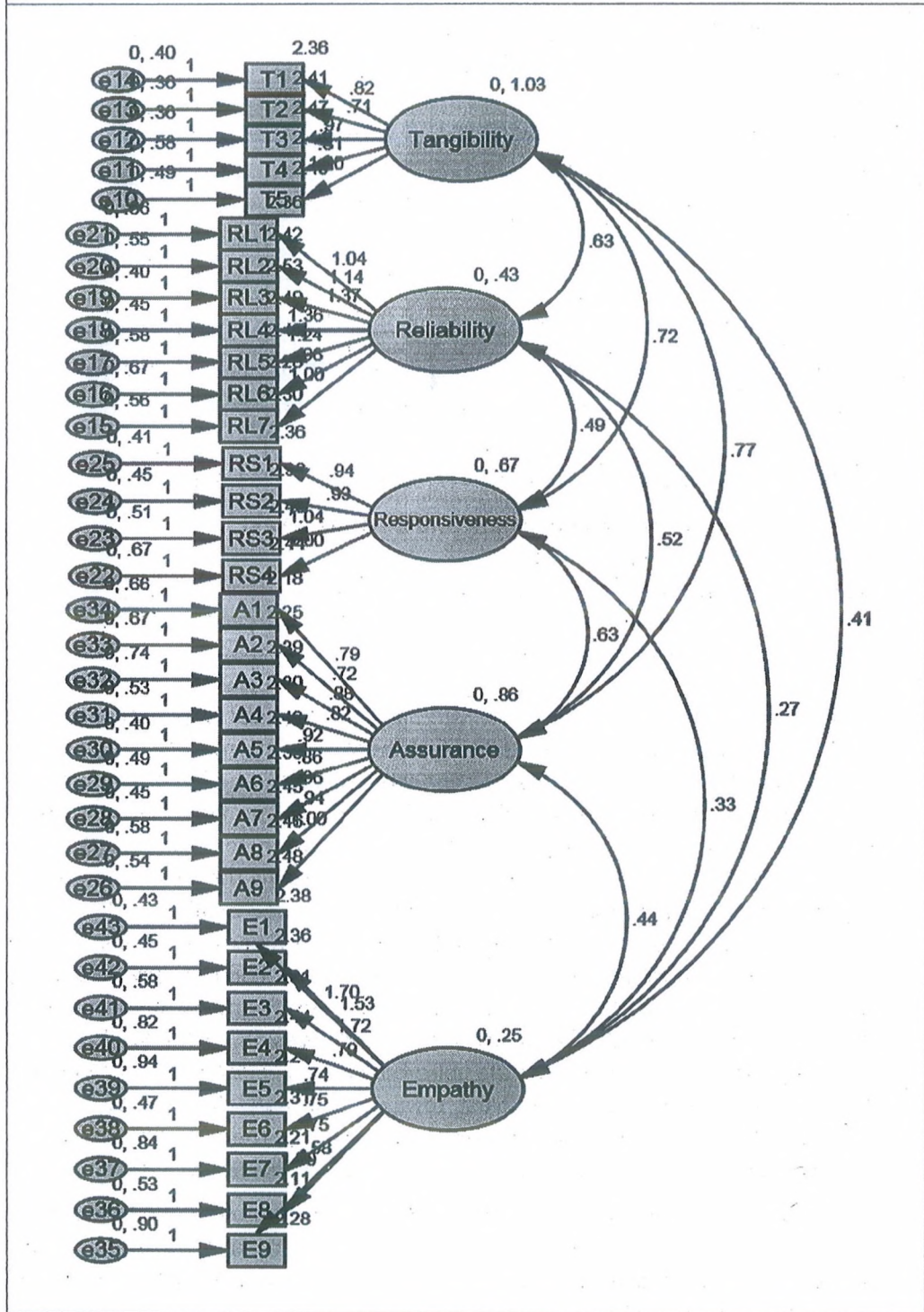
Table 4 (Cont.)

Variable	Factor						h ²
	1	2	3	4	5	6	
E2: Understanding Customer Needs	0.230	0.445	0.073	0.088	0.271	0.071	0.343
E3: Informed Service	0.260	0.684	0.278	0.093	0.119	-0.048	0.638
E4: Best Service	-0.087	0.113	0.111	0.631	0.184	-0.206	0.507
E5: Convenient Business Hours	0.075	0.106	0.041	0.786	-0.049	0.172	0.668
E6: Staff Intimacy	0.097	0.108	-0.053	0.585	0.375	-0.299	0.596
E7: Customer Trust	0.016	0.131	0.099	0.794	-0.112	0.204	0.711
E8: Agent's Concern to Solve Problem	0.166	-0.045	0.077	0.633	0.167	-0.230	0.517
E9: Extended Service Hour	0.145	0.029	-0.060	0.710	0.107	0.242	0.599
Eigenvalue	14.364	2.805	1.727	1.292	1.245	1.034	
Total Variance	42.246	8.250	5.079	3.799	3.660	3.041	
Cumulative Variance (%)	42.246	50.497	55.576	59.375	63.035	66.076	
Kaiser-Meyer-Olkin and Bartlett's Test							
KMO Measure of Sampling Adequacy						0.928	
Bartlett's Test of Sphericity		Approx. Chi-Square				1.473E4	
df						561	
Sig.						0.000	

accessible location of the branch office (0.754) and physical appearance of the staff (0.700) of LIC. Factor two resulted out of the constructs namely of assurance and empathy dimensions, namely, 'Corporate image', which consists of its uniqueness when compared to others (0.816), well liked by customers (0.805), personal attention to customers (0.760) and widely known to everyone (0.711). Assurance and empathy constructs of LIC were the dimensions that highly influenced the respondents and paved way for the perception of service quality of LIC. Factor three resulted purely out of the assurance dimension, namely, 'Honesty and Competency', which includes employee's knowledge and competency in solving customers' problems (0.771) and trustworthiness and honesty of employees (0.715). Factor four resulted out of the empathy dimension, namely, 'Trust and Convenience', and it highly influenced the policyholder's perception of service quality of LIC and consisted of customers' trust towards LIC staff (0.794), convenient business hours (0.786) and extended service hours (0.710). The non-tangible factors highly influenced the policyholder's perception of service quality of LIC.

All these factors taken together explained 66.08% of the variance. The criteria that explained highest variance, as indicated by communality value, were uniqueness of LIC when compared to others, privacy of customer information and individual attention to customers' needs.

Figure 1: Path Diagram of the Structural Model



Testing Model Fit – Structured Equation Modeling

Path analysis was performed to test the model depicted in Figure 1. Service quality dimensions tangibility, reliability, responsiveness, assurance and empathy produced significant results. Customer perceived service quality leads to satisfaction. The analysis was conducted using AMOS (Analysis of Moment Structures) software. The chi-square statistics indicates that the model fits the data. The goodness of fit indices for structural model indicated a good fit. CFI = 0.958; NFI = 0.961; RFI = 0.968; IFI = 0.972; TLI = 0.926 and RMSEA = 0.067. According to SEM fit conventions (Byrne, 2001), indices above 0.90 indicate a good model fit. TLI and CFI show good fit at 0.95 or higher. RMSEA should be 0.07 or lower to indicate good model fit. Thus, the dimensions tangibility, reliability, responsiveness, assurance and empathy together form a fit model developed in this study.

This model supports our study and shows that service quality dimensions were the key elements to the customer perceived services of LIC. It shows that tangibility, reliability, assurance and empathy were the key antecedents to the perceived service quality of LIC.

Conclusion

In the competitive insurance sector, these findings can be transformed into effective strategies and actions for achieving competitive advantage through customer perceived service satisfaction and retention. Apparently, the tangibility dimension impacts service quality and the physical appearance of staff fortifies their service quality. Among the determinants, accuracy and accessibility proved to be the strongly supporting factor for service quality. Intangible promises would give utmost satisfaction to customers and the non-tangible factors, namely, assurance and empathy dimensions, highly influenced the policyholder's perception of service quality of LIC.

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