Managing Service Quality in the Life Insurance Sector: An Empirical Analysis

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Abstract:

With the liberalization in insurance sector, service quality has become an important means of differentiation and path to achieve business success. Insurance sector plays a vital role in India's service sector. The present paper is an attempt to study the customer's perception about service quality offered by the life insurance companies operating in Delhi NCR using SERVPERE scale. One of the main objectives of this research study is to identify the factors affecting the service quality in the life insurance sector which plays a crucial role in creating customers' perception regarding the quality of service delivered. A modified SERVPERE questionnaire on five point Lickert scale from 1 (strongly disagree) to 5 (strongly agree) on a sample of 251 respondents has been used. The study showed that six factors play a vital role in influencing the perception of customers towards service quality of life insurance company. The study indicated that among the various service quality dimensions, Empathy (with the largest β value) is the best predictor followed by Reliability, Responsiveness, Tangibles, Assurance, and Convenience.

Keywords: Service Quality, Perception, Life Insurance, SERVPERE.

1. **Introduction:**

Service sector is the fastest growing sector in India and is projected to have high growth in future. A major contributor among huge service sector is the insurance sector which plays an important role in enhancing financial intermediation, creating liquidity and mobilizing savings in the country. The focus is on enhancing customer satisfaction through improved service quality which leads to improved customer retention, loyalty and profitability. In order to survive and thrive in the competitive insurance industry, life insurers are actively engaged in developing new strategies for customer satisfaction through proper improvement of service quality. Quality is one of the competitive priorities which have migrated from the literature of

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manufacturing strategy to the service arena (Pariseau and McDaniel, 1997). Several authors have demonstrated its positive relationship with profits, increased market share, return on investment, customer satisfaction and future purchase intentions (Jain and Gupta, 2004). Service quality is a concept that has around considerable interest and debate in the research literature because of the difficulties in both defining it and measuring it with no overall consensus emerging on either (Wisniewski, 2001). In the service sector, the quality of service, one of the most dominant themes of research in services, has become a strategic instrument for firms since 1990s (Fisk et al., 1993; Donnelly et al., 1995). Customer perceives services in terms of its quality and how satisfied they are overall with their experiences (Zeithaml, 2000). Yoo and Park (2007) found that employees, as an integral part of the service process, are a critical element in enhancing perceived service quality. The key to sustainable competitive advantage in today's competitive environment lies in delivering high-quality service that result in satisfied customers (Shemwell et al., 1998). In fact, service quality has become a great differentiator, the most powerful competitive weapon which many leading service organizations possess (Berry et al., 1985).

Teas (1993) stated that the service quality is derived from a comparison of the performance with the ideal standards. The service quality is produced in the interaction between a customer and elements in the service organization. They differentiated between quality associated with the process of service delivery and quality service means confirming to the customer expectations on a consistent basis. Gronroos (1984) explained service quality as a perceived judgment, resulting from an evaluation process where customers compare their expectations with the service they perceive to have received. The author also suggested that service quality issues could be split into technical quality (what is done) and functional quality (how it is done). In insurance, service quality relates to six broad aspect of business: quality of raw or original data; the quality of derived data; quality of performance of employees at all levels; quality of performance of equipment and machinery; quality of decision at all levels; quality of services related to financial aspect involved (Rosander 1985). The success of insurance companies in the market rests on the availability of customized product and also the service quality offered to customers. At this juncture, the insurance companies should evaluate their services and identify their distinction from others. The only way to succeed in the market is the formulation of differentiated service to different customer segments (Vanniarajan and Jeyakumaran, 2007). Delivering of quality services to the customers has become an indispensable factor for success and survival in today's competitive

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insurance environment. Devasenathipathi et al., (2007) compared and rated all the life insurance companies, measured the customer perception, purchase behavior, consumer awareness regarding life insurance industry and also studied the privatization, policy awareness and life coverage awareness among the consumers. The study concluded that the entry of private players brought better service, quicker settlement, greater awareness and more choice. Tornow and Wiley (1991) Showed that there is a direct relationship between customer satisfaction and the attitudes of employees and on the other hand, there is a connection between them and organization practices. In addition, they proved that employee attitudes not only affect customer satisfaction but organizational effectiveness. Previous research also indicated that high levels of customer satisfaction are related to the service quality provided through customer interactions. The service profit chain specifically identifies a relationship between employee satisfaction, service quality and customer satisfaction. Service quality has formed a nucleus of research incorporating many dimensions of service outcome and the parameters for achieving these outcomes: costs, profitability, customer's satisfaction, customer retention, and service guarantee; corporate marketing and financial performance (Kumar et al., 2008).

Parasuraman et al., (1988) defined service quality as a global judgment, or attitude, relating to the superiority of the service and explicated it as involving evaluations of the outcome (i.e., what the customer actually receives from services) and the process of service act (i.e., the manner in which service is delivered). Parasuraman et al., (1985) initially identified 10 dimensions used by consumers in evaluating service quality and finally consolidated them into five broad dimensions. SERVQUAL refers to five service quality dimensions (Parasuraman et al., 1988).

1. Reliability (The ability to perform the promised service dependably and accurately)
2. Responsiveness (Willingness to help customers and to provide prompt services)
3. Tangibles (Physical facilities, equipment, and appearance personnel)
4. Assurance (Knowledge and courtesy of employees and their ability to convey trust and confidence)
5. Empathy (Caring, individualized attention the firm provides to its customer)

Though SERVQUAL has been utilized widely by practitioners it has been criticized on various conceptual and operational grounds. Some of the criticisms regarding SERVQUAL were the universality of the scale (Cronin and Taylor, 1992), appropriateness of utilizing it in different cultural context (Carman, 1990; Cui et al., 2003), focusing mainly on the service

delivery process (Mangold and Babakus, 1991), and the questionnaire length due to measuring perception and expectation separately as different scores (Carman, 1990). Cronin and Taylor (1992) developed a performance based only measurement called SERVPERF for assessing service quality as a way of overcoming some criticisms encountered by SERVQUAL. SERVPERF only evaluates customer's perception of the service delivered while SERVQUAL evaluates both customer's expectation and perception of the service offer. SERVPERF assumes that it is unnecessary to measure expectations directly from customers as they automatically provide their ratings by comparing performance perceptions with expectations (Culiberg and Rojsek, 2010). SERVPERF scale is identical to the SERVQUAL scale in its dimensions and structure. Empirically SERVPERF has found superior to SERVQUAL scale (Jain and Gupta, 2004; Wang and Shieh, 2006) and it has been favored over the SERVQUAL (Babakus and Boller, 1992, Gotlieb, et al., 1994).

2. Review of Literature:

Parasuraman (1985) found that services were very difficult to assess than product given that services were characterized by intangible, heterogeneity, simultaneity of production and consumption, and a high proportion of accuracy 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.

Parasuraman (1988) define perceived quality as a form of attitude, related but not equal to satisfaction, and results from a consumption of expectations with perceptions of performance. Therefore, having a better understanding of consumers attitudes will help know how they perceive service quality.

Parasuraman (1991) explained a multi-sector study in which they refined their original SERVQUAL instruments and re-examined the reliability and validity of this scale. They provided comparative discussion of insights from their study and those from other SERVQUAL replication studies. The results indicated that the reliability co-efficients for the perception minus expectation gap scores for the five SERVQUAL dimensions are consistently high across the various samples, thereby indicating high internal consistency among items within each dimension. The research concluded that the main purpose of SERVQUAL is to serve as a diagnostic methodology for revealing broad areas of a company's service quality shortfalls and strengths. The use of SERVQUAL can fruitfully be

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supplemented with additional qualitative or quantitative research to uncover the causes underlying the key problem areas or gaps identified by a SERVQUAL study.

Brady (2002) assessed the two service quality measurement models of the performance only index (SERVPERF) and the gap-based SERVQUAL scale. The study was carried out with the objective to examine the ability of the performance of only measurement approach to capture the variance in the consumers overall perceptions of the service quality across three studies. For the first study, the original Cronin and Taylor data was obtained from 660 persons through personal interviews in a medium-sized city in the south-eastern US. The data for second and third studies was collected from service industry, namely, spectator sports, entertainment, healthcare, long distance carriers and fast food. The results of first study exhibited that the replication successfully duplicated their finding as to the superiority of the 'performance only' measurement of service quality. The results from the other two studies also gave storing support again for the superiority of the 'performance only' approach 'to the measurement of service quality.

Jain and Gupta (2004) evaluated the diagnostic power of the two service quality scales, namely, SERVQUAL and SERVPERF scales. The paper also searched the validity and methodological fitness of these scales in the Indian context' an aspect which has so far remained neglected due to the preoccupation of past studies with service industries in the developed world. The data has been collected from 300 students and lecturers of different colleges and departments of the University of Delhi spread all over the city of Delhi. The study found SERVPERF scale to be providing a more convergent and discriminated valid explanation of the service quality construct. However, the scale was found deficient in its diagnostic power. It is the SERVQUAL scale by virtue of possessing higher diagnostic power to indicate areas of managerial interventions in the event of lack of service quality.

Gautam (2011) studied the comparison and analysis of the service quality perceptions of customers about the public sector and private sector insurance companies. The study also seeks to find the relevant dimensions of the SERVQUAL/ SERVPERF scale in insurance industry in Indian context. The primary statistical techniques used in the study are Correlation Analysis, Factor Analysis and Multiple Regression Analysis. In this study the level of the dimensions of service quality and its relation to customer service quality perceptions has been done. Results of overall service quality perceptions show that public insurance companies are rated high as compared to private insurance sector companies. The study was conducted

under the null hypothesis that there is no significant difference in the service quality perceptions of public and private sector insurance companies. Results of t-test rejected the null hypothesis, led to the inference that there is significant difference in the service quality perceptions of public and private sector insurance companies.

3. Objectives of the Study:

- To identify the factors affecting the service quality in the life insurance sector
- To study the customer's perception of service quality offered by the life insurance companies.

4. Research Methodology:

For analyzing the customers' perception towards service quality offered by life insurance companies, a modified SERVPERE type questionnaire relevant to the insurance industry has been constructed. In 'SERVPERE' construct all the statements are one-dimensional and performance based, which incorporate the statements of 'SERVQUAL' model that can be used for measurement (Cronin and Taylor, 1992). A questionnaire included 22-items from the original five dimensions (Tangibility, Reliability, Responsiveness, Assurance and Empathy) of the SERVQUAL instrument developed and updated by Parasuraman et al., (1994). In order to obtain an even more comprehensive and insurance industry specific measure of service quality, 7 additional items added to the SERVPERE scale. Thus, in total 29 items were included under six dimensions (Tangibility, Reliability, Responsiveness, Assurance, Empathy and Convenience) to measure the perception of customer service quality of public and private life insurance companies. All the items were measured on the five point Likert scale from 1 (strongly disagree) to 5(strongly agree). Based upon the earlier guidelines of researchers (Babakus and Boller, 1992; Boulding, et al., 1993), the overall perception of service quality was measured using single item, "your perception about the overall service quality of your company", measured on a five-point Likert scale, anchored at 1: "very bad" and 5: "very good". Besides these, impact of privatization on the overall working of the company; time taken to settle claims; procedure and formalities to settle claims; procedure and formalities for taking insurance policy; and behaviour & efficiency of employee and agents were analysed on five point scales. Multicollinearity and adequacy of data is checked by KMO and Bartlett's test. Reliability of constructs was verified by Cronbach's Alpha. The result is also linked with theory to identify which areas the company should improve.

A sample of 320 customers was taken up who were approached personally. Out of the total, 251 correct completed questionnaires in all respects, yielding a response rate of about 78.44%, was taken for the purpose of analysis. For choosing the sample, non-probabilistic convenience sampling technique has been used. Stratified sampling technique has been used.

4.1 Exploratory Investigations:

An exploratory qualitative study was undertaken to better understand the key dimensions of service quality that are important to policyholders. For this, personal in-depth interviews, comprising open-ended questions with the customers, were conducted (Seth, 2008). In all, thirty customers, having policies of various service providers were randomly selected for interviews. Each interview lasted 15 to 30 minutes. The semistructured in-depth interviews focused on the following issues:

- How do the customers evaluate service quality in life insurance sector?
- What are the important factors influencing the customer"s perceptions of service quality in life insurance services?

The respondents provided valuable insights regarding the service quality measures and key factors impacting their perceptions. The important insights obtained from analyzing the customers" responses provided a new dimension convenience that includes three variables in addition to four variables as an outcome of interview for measurement of perception of service quality. The additional seven variables including 22 variables were also discussed with employees, and agents of life insurance companies.

4.2 Statistical Tools:

Data collected were subjected to descriptive analysis and reliability analysis, exploratory factor analysis using principal component method with varimax rotation, and multiple regression analysis. The regression analysis was conducted to determine the relative importance of service quality items influencing the overall service quality, importance of overall service quality to influence the customer satisfaction. Regression helps to predict the value of a dependent variable using one or more independent variables and is used for the investigation of relationships between variables. This analysis was also useful in quantifying the influence of various simultaneous effects on a single dependent variable (Gupta, 2009).

In order to test the strength of the relationship between the dependent and independent variables, regression coefficients were used to evaluate the strength of the relationship between the independent variables and the dependent variable. Chu (2002) indicated that the beta coefficients of the independent variables can be used to determine its derived importance

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to the dependent variable compared with other independent variables in the same model. In life, the relationship of the independent variable with the dependent variable will be positive if the beta coefficient is positive. In contrast, if the beta coefficient is negative, the relationship between the independent and dependent variables will become negative. Of course, the beta coefficient equalling zero implies that there is no relationship between both of the independent and dependent variables. R^2 which represents the percent of variance in the dependent variable (overall service quality) explained collectively by all of the independent variables. Thus the R^2 value in the model provided a measure of the predictive ability of the model. The close the value to 1, the better the regression equation fit the data.

5. **Data Analysis:**

Table 1: KMO and Bartlett's Test

Kaiser-Meyer-Olkin Measure of Sampling Adequacy.		.876
Bartlett's Test of Sphericity	Approx. Chi-Square	5069.430
	Df1	406
	Sig.	.000

KMO value .876 (more than .6) in the table 3, indicates that data is adequate. Bartlett's Test is used to check multicollinearity. The null hypothesis is that there is no correlation between the statements. According to Bartlett's test significant value is .000(p<.05).

Table 2: Results of factor analysis on 29 attributes with their six dimensions (n =251)

Attributes	Factor Loading	Reli. Coef.	Factors

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Items	Loading	Cronbach's α	Dimension
1. Welcome complaints and criticism and respond positively	.841		
2. Give customer individual attention	.830		
3. Employee and agents understand the specific needs of their customers	.820		
4. Life Insurance Company has the customers' best interest at heart	.805	**.924**	Empathy
5. Employees deal with customers in a caring fashion	.776		
6. Commit to ethics and promote ethical	.753		
7. Operating hours convenient to their customers	.736		
8. Organize consumer awareness programmes under CRM	.673		
1. Performs the service right in the first instance	.886		
2. Customer can fully depend or rely on employee of the Life Insurance Company	.875		
3. Life Insurance Company provides the services at the time they promised to do so	.855		
4. Life Insurance Company insists on error free records i.e., issuing error free bills, statements, receipts, contracts etc.	.767	**.890**	Reliability
5. When customers have a problem Life Insurance Company shows sincere interest in solving it	.741		
6. Life Insurance company have goodwill towards customers	.718		

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Items	Loading	Cronbach's Alpha	Dimension
1. Employees and Agents of Life Insurance Company are neat & clean	.885		
2. Life Insurance Company has modern equipment & technology	.811		
3. The physical facility of Life Insurance Company are visually appealing	.803	**.880**	Tangibility
4. Material associated with the services such as pamphlets, forms or statements are visually appealing in the Life Insurance Company	.753		
1. Employees and agents of Life Insurance Company give prompt services to customers	.780		
2. Employees and agents of Life Insurance Company have always been willing to help customers	.756		
3. Employees and agents of Life Insurance Company tell customers exactly when services will be performed	.721	**.876**	Responsiveness
4. Employees & agents of Life Insurance Company are never too busy to respond to customers' request	.704		
1. The behaviour of employees and agents of Life Insurance Company instils confidence in customers	.839		
2. Customers of Life Insurance Company feel safe in their transactions	.821		
3. Employees and agents of Life Insurance Company are consistently courteous with customers	.773	**.858**	Assurance
4. Employees and agents of Life Insurance Company have the knowledge to give professional services to customers and to answer customer's questions	.750		

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1. Formalities of taking a policy of the company are simple	.801	**.838**	Convenience
2. Settle customers' claims without any delay	.711		
3. Contract of insurance policies with clear and transparent terms	.616		

Table 2 presents the results of the exploratory factor analysis and reliability analysis. All items demonstrate high factor loading (>0.60) on their intended factor. The composite reliability analysis indicated that the coefficients of six factors ranged from 0.838 to 0.924. Accordingly, the reliability coefficients for the six factors exceeded the recommended significant level of 0.70 (Nunnally, 1967). Therefore good internal consistency among the variables within each dimension was found.

Multiple Regression Analysis:

In order to assess the overall effect of the instrument on service quality and to determine the relative importance of six customer-perceived service quality dimensions of the generated scale, they were subjected to regression analysis. For this, based on Parasuraman et al., (1988) approach, multiple regression analysis model was followed in which the respondents" overall judgment of service quality perception was considered as dependent variable and the six extracted customer perceived service quality dimensions were made independent variables. Thus, the extracted score for each of the dimensions were regressed on the overall service quality score obtained from each respondent survey.

Table 3: Model Summary

Model	R	R Square	Adjusted R Square	Std. Error of the Estimate
1	.800[a]	.640	.632	.39434

a. Predictors: (Constant), Empathy, Reliability, Assurance,

 Tangibility Responsiveness, Convenience

Table 4: ANOVA

Model	Sum of Squares	df	Mean Square	F	Sig.

1	Regression	67.563	6	11.260	72.413	.000[a]
	Residual	37.943	244	.156		
	Total	105.506	250			

a. Predictors: (Constant), Empathy, Reliability, Assurance, Tangibility Responsiveness, Convenience

b. Dependent Variable: Overall Customers" Service Quality Perception

Table 5: Coefficients[a]

Model	Unstandardized Coefficients		Standardized Coefficients	t	Sig.
	B	Std. Error	Beta		
(Constant)	3.223	.025		129.491	.000
Empathy	.295	.025	.454	11.814	.000
Reliability	.280	.025	.432	11.247	.000
Assurance	.132	.025	.203	5.293	.000
Tangibility	.158	.025	.244	6.352	.000
Responsiveness	.225	.025	.347	9.041	.000
Convenience	.107	.025	.164	4.278	.000

a. Dependent Variable:

Overall_service_perception

The value of R^2 is 0.640, which explains that extracted factors account for 64% of variation in the overall customers" service quality perception. In other words, it has been observed that the overall regression model is significant (F= 72.413, p<0.000), with 64% of the variation in overall customers" service quality perception is predicted by independent variables. In other words, the value of R^2 is significant as indicated by the value of p value (0.000) of F statistic as given in ANOVA Table 4. This shows that regression model results are showing significantly better prediction of overall customers' service quality perception. The result of Table 5 can be summarized as regression equation given below:

Overall service quality as perceived by customers= 3.223= 0.305 (Empathy)+0.280 (Reliability)+0.132 (Assurance)+0.158 (Tangibility)+0.225 (Responsiveness)+0.107 (Convenience). All the factors were found to be significant and remained in the equation

explaining overall service quality. The beta (β) coefficients provide the relative importance. The dimension with the largest coefficient represents the most important dimension in terms of its influence on overall quality perceptions. The next largest coefficient represents the second most influential dimension and so forth. In other words, the higher the beta coefficient, more the contribution of factors in explaining perceived service quality. The results indicate that perceived service quality is influenced by all the six dimensions with "empathy" as the most important dimension having $β$ coefficient = 0.454, and convenience appearing to be the least important with $β$ co-efficient = 0.164. This shows that the customers perceive "convenience", i.e., Settle customers" claims without any delay; Formalities of taking a policy of the company are simple; and Contract of insurance policies with clear and transparent terms etc., as the least important for influencing their service quality perceptions. In other words, among the various service quality dimensions, empathy (with the largest β value) is the best predicator, followed by reliability, responsiveness, tangibility, assurance, and convenience.

6. Findings, Conclusions and Suggestions:

Thus the study shows that six factors play a vital role in influencing the perception of customers toward service quality of life insurance company. The results of the regression analysis highlighted the priority areas of service improvement and revealed that not all the dimensions contribute equally to the customers" perceptions of service quality in life insurance sector. The study indicated that among the various service quality dimensions, Empathy (with the largest β value) is the best predictor, followed by Reliability, Responsiveness, Tangibles, Assurance, and Convenience. Thus, superior performance on the most important dimension, Empathy may be helpful in providing enhanced quality of service while the performance on less important dimension like Convenience may not significantly impact customers" perceptions of service quality.

Looking at this individual dimension, it is suggested that life insurance company should welcome complaints & criticism and respond positively; give customer individual attention; employee and agents understand the specific needs of their customers; Life Insurance Company should have the customers" best interest at heart; employees should deal with customers in a caring fashion; commit to ethics and promote ethical behavior for the customer; operating hours convenient to their customers; organize consumer awareness programmes under CRM by which service quality could be maintained and improved for sustaining and increasing policyholders. Additionally, reliability factor appeared to play an

important role in influencing the overall service quality as perceived by the customers" of life insurance sector. Thus, the insurance companies should need to focus on performs the service right in the first instance to customer; customer can fully depend or rely on employee of the life Insurance Company by creating confidence among them; life Insurance Company should provide the services at the time they promised to do so; life Insurance Company be insists on error free records i.e., issuing error free bills, statements, receipts, contracts etc.; When customers have a problem Life Insurance Company shows sincere interest in solving it; Life Insurance company should goodwill for increasing reliability among customers of life insurance. Customer perceived Responsiveness at the third important place in the overall perception of service quality. For this, insurance companies should need to pay attention on providing prompt services to customers; employees and agents of Life Insurance Company have always been willing to help customers; employees and agents of life Insurance Company tell customers exactly when services will be performed; employees & agents of life Insurance Company are never too busy to respond to customers request. For this, the employees and agents are able to make important decisions regarding customers' requirements at their own level, thereby providing adequate responsiveness to the policyholders of the company.

Tangibility appears as on the fourth place in term of importance. This requires that service providers should have modern equipments and technology with employee neat and clean at the work place. Material associated with the services and physical facility should be visually appealing.

The Assurance factor involving friendly, courteous and polite behaviour of employees and agents of the life insurance company; having adequate knowledge to handle the queries of the policyholders; employees should behave to make customer to feel safe in their transactions assumed the forth important place in the overall rating of service quality. In this context, it is imperative for the service providers to provide adequate training to their employees to improve their customer interaction skill and their knowledge.

The new dimension identified this study, Convenience appeared to be the least important dimension in affecting the customers" perceptions of overall service quality. The least important given to Convenience can be attributed to the fact that customers attached less importance to formalities of taking a policy of the company are simple; settle customers claims without any delay; and contract of insurance policies with clear and transparent terms.

Thus, the life insurance companies are required to focus on important dimensions to achieve high levels of service quality and also aim at reaching acceptable level for not so important dimensions. Finally, the monitoring of service quality should be on continuous basis. The service providers can increase the size of market by managing the service quality dimensions in order of their importance. This is expected to increase the customers' satisfaction and the company will be more competitive in long run. Based on the relevance of each of these factors, life insurance companies can draft a suitable action plans. Moreover, life insurance players who are planning to do business in India should be attentive when analyzing on service quality, so that they can focus on the major dimensions and plan to meet the customers' perception regarding service quality. The insurance companies shall have to reorient themselves in terms of the customer service parameters to instill the concept of quality service in the mind of the customer and further in terms of growth.

7. Scope for further Study:

This study is done in Delhi NCR, therefore, the result got may not fit to the country as a whole. There may be a possibility of cultural differences playing a role in the outcome of the study. Thus, there is need to explore these result for other part of country and other countries as well. This may provide comprehensive understanding of the service quality dimensions across different culture, values and beliefs. More dimensions of services can be added to measure the perception of customer service quality.

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