

Estimating the impact of Service Quality on Customer Perception in Private Sector Life Insurance Companies in West Bengal – A SERVQUAL based approach

Meghdoot Ghosh

MBA, UGC-NET, PhD Research Scholar
Assistant Professor
Institute of Management Study
93 Mukundapur Main Road

Abstract

The quality of the service is a pre-requisite for any service organization's market performance and subsequently, economic performance. Service Providers are under perfect competition to promote that they are providing customer-focused service and that continuous performance improvement is being delivered. Given the financial and resource constraints under which service organizations must manage, it is now becoming almost mandatory that customer expectations are clearly understood and measured and that, from the customers' perspective, any gaps in service quality are identified. Measuring Service Quality becomes indispensable for any service organization to monitor and control the quality of service delivery and enjoy competitive advantage (Ghosh, Ghosal, Handbook of Research on Promotional Strategies and Consumer Influence in the Service Sector 2016). This study aims to measure the gaps in life insurance service quality by applying a framework developed by Parasuraman et al. (1985), SERVQUAL.

Keywords: Life Insurance, GAP Model, SERVQUAL, Perceived Value, Expected Value, Customer satisfaction

Introduction

“Customer service is an integral part of life insurance organization. It is necessary to identify the key success factors in life insurance industry, in terms of customer satisfaction so as to survive in intense competition and increase the market share.” (Upadhyaya & Badlani, 2011)

Indian insurance is a flourishing industry with several national and international players competing and growing at a rapid rate. During the initial phase of privatization of Insurance sector in India, the penetration was very low. Indian as well as foreign companies reaped the benefits of a low base and have reported high rate of growths in the last decade. But times have changed now and the way forward is going to be tough. They have to start focusing on the different strategies like customer retention strategy, operational discipline, regulatory developments and opportunities for innovation to drive sustainable growth and profitability (Ghosh, Ghosal, Handbook of Research on Promotional Strategies and Consumer Influence in the Service Sector 2016). The insurance sector in India is primarily divided into life and non-life, apart from a very small segment comprising re-insurance. Both the life and non-life insurance segments, which were nationalized

in the 1950s and 1960s, respectively, witnessed an across-the-board liberalization process in 2000. After the reforms, the number of players has increased from one in life insurance and four in non-life insurance in 2000 to 24 players in life insurance and 27 players in non-life insurance sector till January 2013 (including one re-insurer in the non-life segment) (as per the IRDA website). Global integration of financial markets resulted from de-regulating measures and financial innovations. Liberalization and Globalization have allowed the entry of foreign players in the Insurance sector. With the entry of private and foreign players in the Insurance domain, people have got alternatives to choose from. Continuous changes are taking place in customer profile due to the dynamic life style and social perception, resulting in brand switchers. To sustain, the major objective of the modern insurers shifted to a customer-centric relationship. A consultant is willing to forego short-term gains to achieve greater long – term benefit to him and to the customers he serves. He builds relationships on a foundation of trust, respect and performance. Moreover, consultants don't sell – they're specialists who make recommendations to help the prospect to buy. They act as a professional and offer real–world solutions that make sense to the customer. Today, the insurers adopt this technique and thereby go on increasing their market share (Renugadevi & Vidhya, "Current Scenario of Insurance Sector", 2009).

Customer Related Challenges - Low financial literacy and poor access to financial services in India pose a problem in penetration of the right kind of life insurance products - more in terms of the right mix of savings and protection. This is combined with the fact that consumers and distributors both lack understanding of the true purpose of life insurance. Consumers are not clued in about their life stage needs, and the product solutions suitable for such needs. The distributor, armed with an array of products is also unable to give proper insurance guidance to the consumer due to limited knowledge of the true purpose of each financial instrument. This leads to mis-selling, which is a huge negative factor for the life insurance industry. Another major challenge is posed by the media and influencers. Often, the life insurance industry is portrayed in a negative manner and hence the consumers become skeptical of the life insurance industry. The result is that, they may not purchase life insurance, even though a legitimate need exists (Ghosh, Ghosal, Handbook of Research on Promotional Strategies and Consumer Influence in the Service Sector 2016). The fact that life insurance promotes a regular routine of small savings for long term savings and protection is not propagated. Some time companies due to too much profit orientation mislead the customers by confusing advertisements. (Sud, 2011)

Strategies to Combat Challenges

To cope with the above challenges and to improve customer service quality the insurance companies have to find ways to make their services more tangible. “To increase the productivity of providers who are inseparable from their products, to standardize the quality in the face of variability, and to improve the demand situation and supply capacities in the face of service perishability. Informing, educating, motivating, persuading, advising and other services prior to, at the time of and after the issuance of the insurance document make the purchase of insurance dissimilar from purchasing other products and from even other services.” (Chowdhury, Rahman & Afza, 2007). This will make the customers benefitted and satisfied. Satisfied customers over a period of time tend to become loyal patron of the service organization.

Literature Review

Customer service has become a distinct component of both product and service sectors and with the developments in information technology many businesses find demanding and knowledgeable customers.

Gremler & Brown, (1996) attempts to create framework by examining loyalty by looking at the three antecedents to service loyalty: satisfaction, switching costs and interpersonal bonds. The worldwide trend toward service quality was initiated in the 1880s when businesses realized that a quality product, in itself, is not guaranteed to maintain competitive advantage (van der Wal et al., 2002). Service quality, customer satisfaction and customer value have become the main concern of both manufacturing and service organizations in the increasingly intensified competition for customers in today's customer-centered era (Wang et al., 2004). The year 2011 brought in the beginning of a new decade for Indian Life Insurance industry. “The preceding years were significant for the life insurance industry in India after the opening of the sector by the government. During the period 2000-2008, combined with India's rapid rate of economic growth the Indian Life Insurance Industry gained its foothold in the country. Private sector insurers ventured into the country and the industry got a taste of market-driven competition, compared to the time when insurance business was dominated by only public sector insurers. The beginning of this new era in the development of insurance industry saw proliferation of new products and distribution channels which promoted rapid growth of the industry.” (Sud, 2011) Managers in the service sector are under increasing pressure to demonstrate that their services are customer-focused and that continuous performance improvement is being delivered. Given the financial and resource constraints under which service organizations must manage it is essential that customer expectations are properly understood and measured and that, from the

customers' perspective, any gaps in service quality are identified. This information then assists a manager in identifying cost-effective ways of closing service quality gaps and of prioritizing which gaps to focus on. (Chowdhury, Rahman & Afza, 2007).

According to IRDA Journal, June (2012), Indian insurance industry has modified itself with the passage of time, by introducing customized products based on customers' needs and making them available through innovative distribution channels. In India insurance is a flourishing industry, with all several national and international players competing and growing at rapid rates. But home insurance industry which is a part of insurance industry is facing with a number of challenges; the most prominent is the low awareness level among the people. (Banerjee, 2013).

“The MNYL-NCAER India Financial Protection Survey done in collaboration with Max New York Life Insurance have yielded some worrisome results. The research had revealed the problem of uninsured and under insured Indian households. At an all-India level, for all insured households, while the average sum-assured of a life insurance policy is Rs 1,14,450, the average premium paid is Rs 5,007 only. The awareness level about life insurance is higher for people in the older age group. It is important for consumers across demography to understand the true value of life insurance.” (Sud, 2011)

Service Quality Dimensions & Quality Gap Model

Service Quality Dimensions

Parasuraman et al. in 1988, proposed 10 service quality dimensions. They included reliability, responsiveness, competence, access, courtesy, communication, creditability, security, understanding (customer's knowledge) and tangibles. They simplified the ten dimensions of service quality into five dimensions as tangibility, reliability, responsiveness, assurance and empathy. These five dimensions measure the performance of 22 items in the SERVQUAL scale.

Every company (both product and service) wants to get loyal customers which add to repeating purchases and thus helps to yield maximum revenue. We have used five types of service quality dimensions as defined by Parasuraman, Zeithaml & Berry, 1988.

Dimension 1- Tangibility

Dimension 2- Reliability

Dimension 3- Responsiveness

Dimension 4- Assurance

Dimension 5- Empathy

The factors covered by the dimensions are given in the following Table 1

Table 1: Dimensions of Service Quality

| Dimensions | Factors |
|-----------------------|---|
| Tangibles | Physical facilities, equipment and appearance of personnel. |
| Reliability | Ability to perform the promised service dependably and accurately. |
| Responsiveness | Willingness to help customers and provide prompt service. |
| Assurance | Knowledge and courtesy of employees and their ability to inspire trust and confidence. |
| Empathy | Caring and individualized attention that the firm provides to its customers. |

Source: (Ghosh, Ghosal, Handbook of Research on Promotional Strategies and Consumer Influence in the Service Sector 2016)

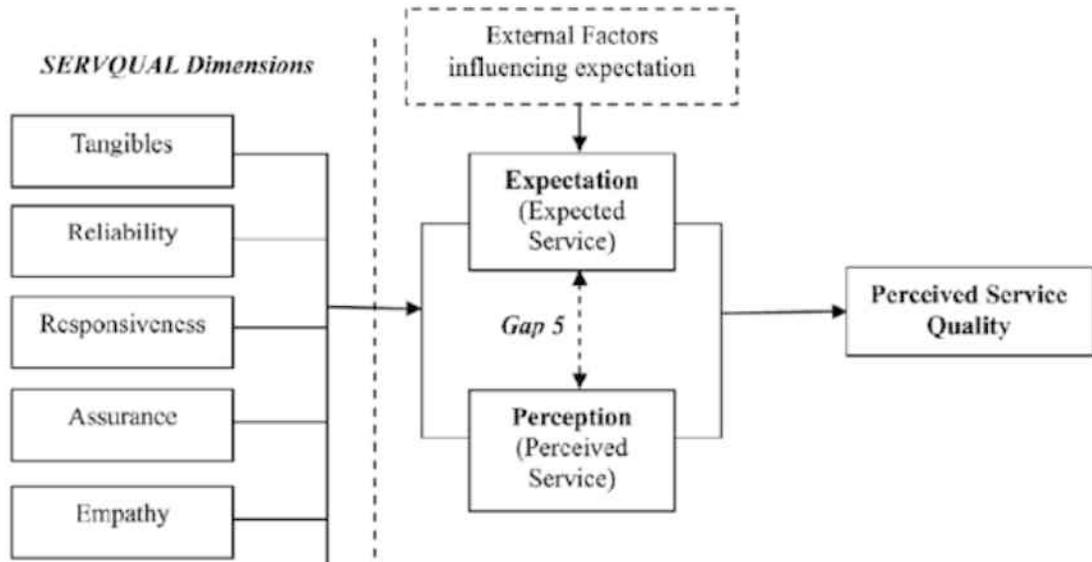


Figure 1 Measuring service quality using SERVQUAL model (Kumar et al, 2009)

Fig 1

Fig 1 describes the effect of SERVQUAL dimensions on the perceived service quality.

Service Quality Gap Model

To develop greater understanding of the nature of service quality and deliver high quality service, Parasuraman, Zeithaml and Berry developed a model that shows major requirements for delivering high-quality service (Figure 2)

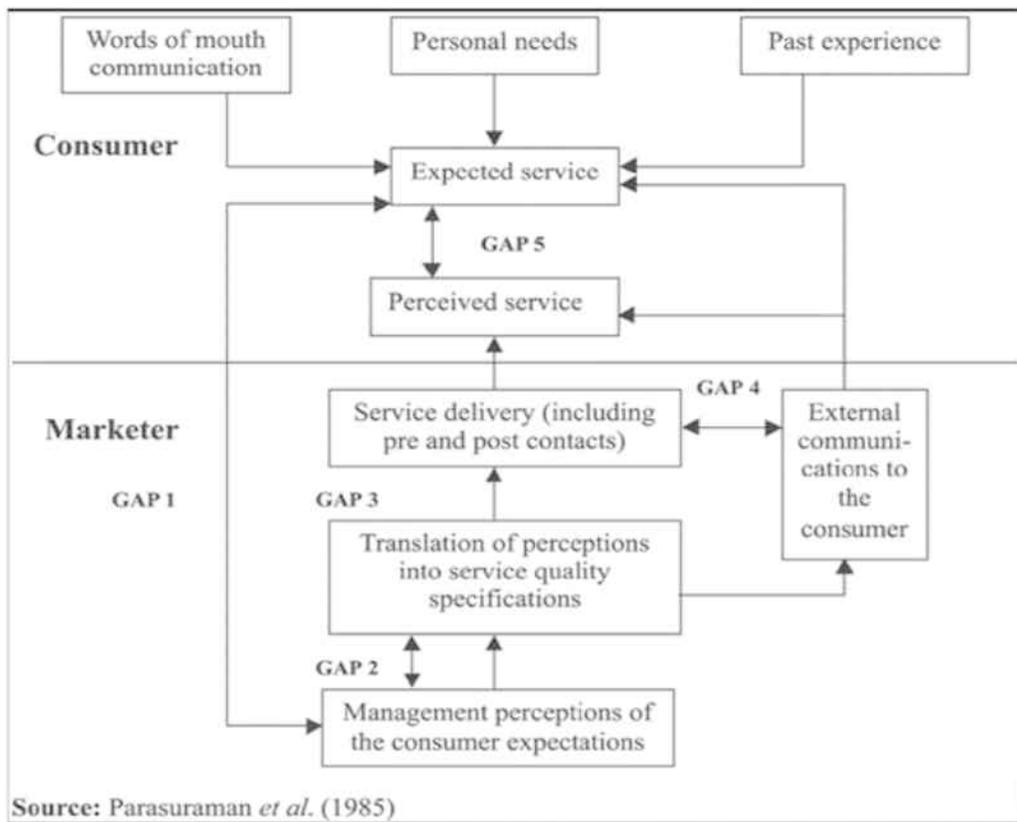


Fig 2: GAP Model

This model in Fig 2 clearly shows that consumers' quality perceptions are influenced by a series of five gaps. Any of

the five possible gap points can be the cause of matching of consumer expectations and the perceived service quality.

Figure 3 : Dimensions of Service Quality

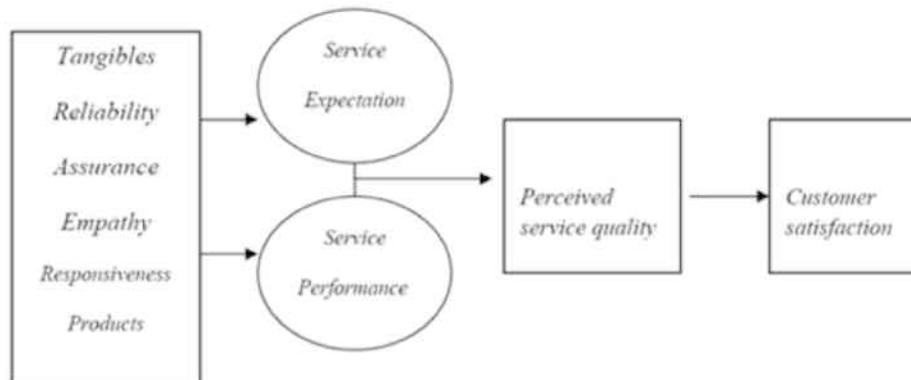


Fig 3

The conceptual model of the research is explained in Fig 3. It shows how customer satisfaction is derived from the service quality as perceived by the customers. The perception is greatly affected by service expectation and service performance.

Objectives Of The Study

1. To study the customer's perception of the different dimensions of life insurance service quality in West Bengal.
2. To analyze & estimate the GAP between the perceived service and expected service quality of the customers regarding the insurance service in West Bengal.

Data Collection Methodology

Sampling Plan

Population: Insured customers across all demography.

Sample Frame: Customer List (s) of the selected agents of ICICI prudential branches in Kolkata & Howrah.

Sample Unit: Insured Customers of ICICI prudential across all demography.

Extent: Kolkata & Howrah districts in West Bengal.

Sampling Method: Area Sampling Method (type of Cluster Sampling where the cluster units are country / states / districts etc) is used to select 2 districts (Kolkata and Howrah) randomly. From the 2 districts we randomly select 5 ICICI Prudential Agents (3 from Kolkata and 2 from Howrah). Units to be selected from customer lists of the Agents using Systematic Random Sampling (Skip Interval = Population List / Sample size).

Sample size: 75 respondents were selected randomly using

above method of which only 50 respondents agreed to participate in the survey.

Extent: Kolkata and Hooghly

Data Sources: Primary & Secondary Data

This study is a cross sectional empirical research based on survey method. Data required for this study are both primary and secondary. Primary data relating to customers of the insurance company were collected through personal interview with the respondents and secondary data relating to the service quality were collected from the different books, journals, websites and blogs. The researcher had personal discussions with the customers of the company and they were personally contacted and interviewed to elicit relevant information from the respondents. Interview schedule was constructed for the collection of data. The important attributes that came out from the output were classified into five dimensions. After obtaining feedback from the customers, a interview schedule using SERVQUAL model was developed containing 23 items, each having two sections: one, the expectations of the customers from the organization and the other, the perceptions of the customer's. For understanding the importance and satisfaction of each service quality dimension a five point Likert scale was used (1= Strongly Disagree, 2= Disagree, 3= Neutral, 4= Agree, 5= Strongly Agree).

The overall questionnaire is divided in four sections. Section 1 deals with the demographic profile of the respondents. Section 2 & Section 3 focuses on the expectations and perceptions of the respondents about the quality of service delivery measured on a 5 point likert scale. Section 4 has questions pertaining to the relative weights of individual quality dimensions as perceived by the respondents measured on a constant sum scale.

Variables used for the Study

The following variables are used for collection of data:

The demographic variables in the study include age, sex, educational qualification, marital status, profession, income.

SERVQUAL Dimensions: Responsiveness, Assurance, Tangibility, Empathy, Reliability. (RATER) as displayed in Table 1.

Data Analyses Methodology

The data collected from the survey was subjected to data cleaning in order to identify missing value, sample characteristics and meet the assumptions of normality. After this, the descriptive analysis was used to summarize the respondents' demography. The following table 5 represents the GAP Score as obtained for different dimensions of service quality. The score is computed by using the formulae ($GAP = \text{Perceived Mean} - \text{Expected Mean}$). If $\text{Perceived Mean} > \text{Expected Mean}$, GAP score will be positive which means customers are delighted with that dimension of service quality, but if $\text{Perceived Mean} < \text{Expected Mean}$, GAP score will be negative which means customers are not at all satisfied with that dimension and care is to be taken by the marketers to minimize the GAP by allocating optimized resources. If $\text{Perceived Mean} = \text{Expected Mean}$, GAP Score will be 0, which means that the customer gets all the values from the service that he expected to get. Customers are assumed to be satisfied from the service. Here the researcher

used weighted mean scores for each dimension to understand GAP in service quality. The weightage of the individual dimension is obtained from the respondents by asking them to allocate the points to each dimension based on a constant sum scale. The statements used to measure the expected and perceived values of each dimensions are given in Table 4.

Empirics

The demographics of the respondents are presented under the 5 attributes i.e. age, gender, qualification, profession, income level. The following table(s) depicts the respondent's profile and the type of company they have selected for patronizing. As far as the age is concerned in almost 50% of the respondents were between 25-34 years old (50%) followed by the age group of 35- 44 years (26%) . On the other hand, 5 respondents (10%) were 45-54 years of age and 7 respondents (14%) were in the 55-64 years age group. Gender-wise, 56% of the respondents were female and only 44% were male. 50% of the respondents were Graduates followed by 32% higher secondary, Post graduates (12%) and PhD(s) only 6%. According to the level of income, 34% of the respondents falls under the income bracket of Rs 1 lakh – 3 lakhs, 28% of the total respondents falls under the income group of Rs. 3 lakhs – 6 lakhs whereas only 20% are under 1 lakh and 18% are greater than Rs. 6 lakhs.

Table 2:
Reliability Statistics
(Service Expectation)

| Cronbach's Alpha | N of Items |
|------------------|------------|
| .914 | 23 |

Source: Survey Data

The Cronbach's alpha reliability coefficient was computed for the Service Expectation measure using SPSS 17 software. The reliability of all the measures was found to be 0.914.

Table 3:
Reliability Statistics
(Service Perception)

| Cronbach's Alpha | N of Items |
|------------------|------------|
| .881 | 23 |

Source: Survey Data

The Cronbach's alpha reliability coefficient was computed for the Service Perception measure using SPSS 17 software.

The reliability of all the measures was found to be 0.881.

Table 4: SERVQUAL Statements applicable to Insurance sector

| DIMENSIONS | STATEMENTS |
|-------------------|--|
| Tangibility | <ol style="list-style-type: none"> 1. Company's staffs look professional 2. The ambience of the company is highly satisfying 3. The environment of the company is convenient 4. Effective information is available through product and service Brochure. 5. Company is having memorable advertisement |
| Reliability | <ol style="list-style-type: none"> 1. Staff provides error free service 2. Staffs are always there to fulfill promises in timely manner 3. Insurance company perform the service right in first 4. Customer can dependent fully on employees 5. Company provides warrantee of the service performance |
| Responsiveness | <ol style="list-style-type: none"> 1. Employees of the company provides prompt service to their customer 2. Employees gives their customer first service turnaround 3. Employees in a position to inform the customer about the time it will take to completion of the service 4. Quick response to any service failure |
| Assurance | <ol style="list-style-type: none"> 1. Employees are trustworthy and honest 2. Employees of the company having knowledge and competence to solve the customer problems 3. Employees of the company inform you exactly when the services will be performed 4. You feel safe in your transactions with the company 5. Employees in the company are always willing to help you 6. Employees in the company are never too busy to respond to your request |
| Empathy | <ol style="list-style-type: none"> 1. The employees goes out of way for you. 2. Employees in the company are consistently courteous with you. 3. The employees of the company understand your specific needs. |

Table 5: Average GAP score of each dimension

| Dimension | Statement | Expectation Score | Perception Score | Gap Score | t-value | Sig. | Average for Dimension |
|---|--------------|-------------------|------------------|----------------|----------------|-------|-----------------------|
| Tangibles | 1 | 4.4574 | 3.5 | -0.9574 | -4.175 | .000* | |
| | 2 | 4.4680 | 3.3085 | -1.1595 | -5.444 | .000* | |
| | 3 | 5.4148 | 4.6489 | -0.7659 | -3.961 | .000* | |
| | 4 | 4.3297 | 3.5531 | -0.7766 | -3.068 | .003* | |
| | 5 | 4.6063 | 3.6063 | -1.000 | -4.518 | .000* | |
| | TOTAL | 23.2762 | 18.6168 | -4.6594 | | | -0.93188 |
| Reliability | 6 | 4.2765 | 3.8191 | -.4574 | -2.263 | .026* | |
| | 7 | 5.3404 | 4.1914 | -1.149 | -5.585 | .000* | |
| | 8 | 5.7446 | 4.3191 | -1.4255 | -7.155 | .000* | |
| | 9 | 5.2765 | 4.2978 | -0.9787 | -4.476 | .000* | |
| | 11 | 4.5106 | 3.5212 | -0.9894 | -4.435 | .000* | |
| | TOTAL | 25.1486 | 20.1486 | -5.000 | | | -1.000 |
| Responsiveness | 12 | 5.0319 | 4.3510 | -0.6809 | -3.135 | .000* | |
| | 13 | 5.4680 | 5.1914 | -0.2766 | -1.261 | .211 | |
| | 14 | 5.2340 | 4.4574 | -0.7766 | -3.492 | .001* | |
| | 15 | 5.1595 | 4.6382 | -0.5213 | -2.325 | .022* | |
| | | TOTAL | 20.8934 | 18.638 | -2.2554 | | |
| Assurance | 16 | 5.7872 | 4.8723 | -0.9149 | -3.690 | .000* | |
| | 17 | 4.6914 | 3.9468 | -0.7446 | -3.799 | .000* | |
| | 18 | 5.6914 | 4.9893 | -0.7021 | -3.343 | .001* | |
| | 19 | 3.2872 | 3.3510 | 0.0638 | 1.136 | .259 | |
| | 20 | 5.2659 | 4.4148 | -0.8511 | -3.222 | .002* | |
| | 21 | 4.6063 | 3.5851 | -1.0212 | -4.405 | .000* | |
| | TOTAL | 29.3294 | 25.1593 | -4.1701 | | | -0.69502 |
| Empathy | 10 | 4.4361 | 3.9361 | -0.5 | -2.369 | .020* | |
| | 22 | 4.3617 | 3.7765 | -0.5852 | -2.726 | .008* | |
| | 23 | 4.7978 | 4.1382 | -0.6595 | -2.897 | .005* | |
| | TOTAL | 13.5956 | 11.8508 | -1.7447 | | | -0.58157 |
| Unweighted Average SERVQUAL score: | | | | | | | -0.75446 |

*significant at 5% level

Table 6: Perceived Weightage of different dimensions of Service Quality

| Features | Points |
|--|------------|
| 1. The appearance of the insurance company's physical facilities, equipment, personnel and communication materials. | 22.2 |
| 2. The insurance company's ability to perform the promised service dependably and accurately | 24 |
| 3. The insurance company's willingness to help customers and provide prompt service. | 21 |
| 4. The knowledge and courtesy of the insurance company's employees and their ability to convey trust and confidence. | 25 |
| 5. The caring individual attention the insurance company provides its customers. | 7.8 |
| Total: | 100 |

Table 7: Weighted GAP Score

| SERVQUAL Dimension | Score from Table 5 | Weightage from Table 6 | Weighted Score |
|---------------------------------|--------------------|------------------------|-----------------|
| Tangibility | -0.93188 | 22.2 | -20.6877 |
| Reliability | -1.000 | 24 | -24.000 |
| Responsiveness | -0.56385 | 21 | -11.8409 |
| Assurance | -0.69502 | 25 | -17.3754 |
| Empathy | -0.58157 | 7.8 | -4.53622 |
| Total Weighted GAP Score | | | -69.3678 |

Conclusion & Interpretation

All the different dimensions of service quality based on which the overall service quality is measured and interpreted is displayed in Table 5.

From the Table 5, it is found that the maximum unweighted negative GAP score occurred for Reliability, Tangibility and Assurance dimensions followed by Empathy and Responsiveness. Independent sample t-test is being performed and it is evident that the gaps recorded in all dimensions are statistically significant. Reliability dimension displays maximum negative (-1.000) score

which means that the company needs to have more skilled manpower and an active HR base that will constantly monitor the performance of the staffs and provide them proper training. Problem also lies with other dimensions especially with tangibility and assurance.

The weighted GAP score also shows that the maximum negative gap occurs for Reliability dimension which has relatively high weightage of 24% (Table 7). This implies that the staff needs to be proactive in their approach and a quick and effective error free service delivery is somewhat required to minimize the GAP.

Other important dimensions with large negative scores are Assurance & Tangibility (Table 7). The employees need to focus individual customers and customize services accordingly as much as possible. They have to increase courtesy and warmth in their behavior towards the customers. They have to be more transparent in their approach, promote themselves through different media more frequently even counsel customers to reduce their anxiety and dissonance.

The overall weighted GAP Score is highly negative (-69.3678), as depicted in Table 7. Thus there are ample scopes of improvement in all the dimensions of service quality.

Recommendations

It is quite evident that if all insurance companies focus on the quality, their business can further be enhanced because in the present age of competition and clutter, customers judge an organization not only by the number of products offered by it but by the quality of that products and services. Also, there should be transparency and well documentation in the functioning of the insurance companies. Consistency in meeting the customer expectation is a must. Organization should provide suitable infrastructure for error free services. Service personnel should be prompt in attending to customers and serving their requirements. Employees should be empowered by the management to do all that they can to assist a customer in trouble. They should empathize with customers who report problems and work quickly to resolve them. Employees working with commitment and customer orientation should be rewarded to encourage similar behavior among all the employees.

Limitations

The data for the study was collected from Kolkata & Howrah only. However, a more extended geographical sample may produce different results. Due to time constraints the sample of respondents was just 50, further study can be conducted by taking larger sample. Further comparative study of private and public sector insurance companies can be conducted to find out the gap of expected and actual satisfaction level of customers.

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