

An Empirical Study on Product Objectives of LIC of India

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Abstract

In the present epoch of fierce competition in life insurance market in India the formulation and effective implementation of product strategy has become indispensable. In fact, product strategy is formulated as per the set product objectives. LIC of India being the market leader has its significant product objectives. The present paper is a humble attempt to investigate the product objectives of LIC of India. In order to carry out the research, primary data have been collected with the help of structured questionnaire. A sample size of 107 officials working in Divisional office, Varanasi of LIC of India has been considered by using judgmental sampling. Exploratory factor analysis has been used for the purpose of analysis. The findings of the present study include the product objectives into four factors such as effective product management, strategic approach, societal marketing perspective and legal consideration. It may be noticed that the LIC of India has adopted a proactive approach while setting product objectives. This study provides new theoretical insights pertaining to product objectives of LIC of India which is a market leader throughout the time. The product objectives of LIC of India will provide great help to other life insurers in boosting their market shares and market penetration.

Keywords- Product Objectives, Life Insurance, LIC of India, IRDAI, Competition

Introduction

Strategies are formulated to achieve certain objectives and mission. The objectives are determined initially at the corporate level i.e. by top management after scanning the environmental forces. The organisational objectives include marketing objectives, production objectives, financial objectives, etc. The marketing objectives of any organisation facilitate in setting the product objectives, pricing objectives, distribution objectives and promotional objectives. As per product objectives, the firm takes decisions regarding the kind, width, length, modification, pricing, target market, innovation etc. of the product/product mix. (McCarthy, J.E 1964). Apart from the customer orientation, a better product strategy aims at considering the available company resources. The product objectives of LIC of India have changed with the passage of time because of competition. One of the most fundamental objectives of any organisation is to achieve the predetermined sales target i.e. either in terms of an absolute rupee sales or a definite percentage of market share. (Agrawal, R. 2001). To accomplish such an objective, a firm may continue its existing product

line or may introduce new products whether by dropping any existing product or not. In life insurance, the objective of sales growth is also determined in the form of number of policies to be sold and/premium to be collected on monthly basis or yearly basis at headquarter level, then ultimately passes to the branch level. In LIC of India, the same stated objective is determined at corporate office then to Zonal office, Divisional office, Branch office, Development officer and Agents in sequence.

The volatile nature of market because of technological advancement, consumer tastes and preferences, competition and regulatory changes; the products become obsolete in any industry including insurance. In the recent past many of the changes have been made by regulatory body IRDAI in context of product offering viz. lock in period from 3 years to 5 years in ULIPs, return related and service tax by the Government of India. Every product has a limited life which passes through distinct phases of its life cycle: introduction, growth, maturity and decline. Each stage of PLC confronts different responses and forces. At the time of formulating the product strategy, a marketer considers the lengths and character of each phases of product's life cycle. The profit margins begin to decline after touching the optimum level as the product enters the maturity stage because of stiff competition offered by new players in the industry, frequent price reduction and increased cost of production. The organisation endeavours to introduce the new products to grab such prevailing opportunities.

Literature Review

Ferris et al. (2008) found that having an excellent product development process is an important factor in achieving the consistent, organic, top-line growth that companies are seeking today. They emphasised on product idea initiation and generation- sources for new product ideas, product design and pricing, project management/ product implementation process, product IT infrastructure, and product development assessment. In most of the firms, particularly service organization has eight steps viz. idea generation, idea scanning, concept development and testing, marketing strategy development, business analysis, product development/service development, market testing, and commercialization (Rao, 2007). The new product development process begins with the conception of ideas. The ideas may come from the stakeholders of the organization such as customer, channel members, employees, scientists, engineers, marketing agencies, top management, rivals and others. Frylinck, Michael (2012) elaborates about the steps involved, methodology used, challenges faced, product development process, sources of product ideas like inspiration/creative genius, overseas more mature market, competitors' new products, reinsurers, intermediaries, customer focus groups, gap in existing product range, outdated/ unprofitable/ excessively risky

existing products. From the life insurance perspective, the ideas can be segregated into internal sources as well as external sources. The former one entails actuary, top management, marketer, etc., whereas, the latter one includes policyholders, agents, IRDAI, etc. The idea for variable insurance product has been borrowed from foreign insurance market, and LIC has introduced various ULIPs and variable insurance policies to gain competitive edge by finding the features gap in competitors' products. The ideas behind new trends such as hybrid distribution channel, regulatory trend, difficulty in designing marketing mix, online policy, claim management, customer servicing and FDI and growth have contributed in the development of life insurance market (Barik and Patra, 2014). Kipp and Snook (2008) argued that insurers need to classify health insurance risks as per personal profile and values in order to avoid the health insurance to Indians. Rao (2006) analysed that by adding value in policies and by minimising the distribution cost and transaction cost the development of present policies could be made successful. Balasubramanyam (2006) mentioned that most significant factor in the determination of premium is the expected rate on investment. Khansili (2004) mentioned about the innovation in product design and pricing by LIC. Generally, innovation in the life insurance market is attributed to initiatives taken by private companies. Private life insurers have joint venture partners from the countries operating in the U.S., U.K., Germany, Canada, Australia, France and South Africa and naturally, the practices of the life insurance market of these countries are reflected in the products being made available in our country by these private life insurer. This is reflected in all the products, be it individual life products, unit linked products, universal life products or health products/riders. Gupta and Chuganee (2001) stressed on several steps to be taken by LIC to compete with the new players. Due to the opening of insurance sector, the public giant LIC faced fierce challenges. Various major decisions are to be taken in regard to products, services, information technology etc. The above analysis of the previous studies reveals that there are few studies related to product objectives, however, there is no any specific study. The present study is unique from past studies as it focuses on the product objectives rather than performance appraisal of marketing practices in the field of life insurance. The present research is a case study and specific to LIC of India.

Research Methodology

Research Materials

The present study is exploratory cum descriptive in nature. It makes an effort to gain insights pertaining to product objectives of LIC of India. Judgmental sampling technique has been used to obtain the views of officials of LIC of India. A sample of 150 officials working under the Varanasi Divisional office, LIC of India has been chosen, however,

completed questionnaires from 107 respondents have been received. This survey has been conducted during the period of two months i.e. from April, 2017 to July, 2017. The study is based mainly on primary data which have been gathered

with the help of structured questionnaire containing different types of questions like dichotomous, multiple choice, scaling and open ended questions.

Research Methodology	
Nature of Research	Exploratory cum Descriptive
Type of Data	Primary Data
Instrument Used	Structured Questionnaire
Period of the Study	April, 2017 to July, 2017(Primary)
Sampling Area	Varanasi Divisional Office, LIC of India
Sample Size	Approached-150, Received-107
Sampling Technique	Judgmental Sampling
Statistical Tool for Data Analysis	Factor Analysis

Research Methods

The data gathered from different sources have been suitably tabulated, analysed and interpreted with the help of factor analysis using SPSS 17. The data have been tested at 5 percent level of significance through KMO and Bartlett's Test to examine the appropriateness of factor analysis for the dataset and checks the overall significance of correlation matrices with the help of examining null hypothesis i.e. "variables are not correlated". Principal Component Analysis has been adopted for determining the total variance explained.

Results

Under the present study, an attempt has been made to assess the product objectives of LIC. In this regard, the LIC officials working under Divisional office, Varanasi have been asked. For the purpose, twelve variables were identified. These are meeting competition (V1), beating competition (V2), changing consumer attitudes and perceptions (V3), IRDAI's directives (V4), sales growth (V5), utilisation of resources (V6), offer of a full product line (V7), balancing declining product (V8), managing product life cycle (V9), maintaining the market position (V10), new profit opportunities (V11), and social obligation (V12). The responses were rated on five points Likert Scale ranging from not unimportant (1) to most important (5). Factor

analysis method has been employed to extract vital information. The factor analysis encompasses KMO & Bartlett's Test, Principal Component Analysis and naming of resulted factors with concerned variables.

Table 1 shows the result of KMO & Bartlett's Test. The Kaiser-Meyer-Olkin measure of sampling adequacy is an index used to examine the appropriateness of factor analysis. High values (between 0.5 and 1.0) indicate factor analysis is appropriate and the values below 0.5 imply that factor analysis may not be appropriate. Our calculated KMO values (.722) show that factor analysis is appropriate for the present database. Bartlett's test of Sphericity checks the overall significance of correlation matrices with the help of examining null hypothesis which is "variables are not correlated". The calculated value of Bartlett's test (chi-square value 1163.672 with degree of freedom 66 at 5 percent level) was found more than the tabulated value. Hence, the null hypothesis was rejected and it was concluded that the variables are correlated. The above calculation confirms that factor analysis may be applied to analyse the dataset. Further, the Table 2 presents the communalities of variables of the dataset. Communality is the amount of variance a variable shows with all the other variables being considered. This is also the proportion of variance explained by the common factors. Thus, the variances of the variables have been shown in the table.

Table 1: KMO and Bartlett's Test

Kaiser-Meyer-Olkin Measure of Sampling Adequacy.		.722
Bartlett's Test of Sphericity	Approx. Chi-Square	510.651
	df	66
	Sig.	.000

Table 2: Communalities

	Initial	Extraction
Meeting competition (V1)	1.000	.714
Beating competition (V2)	1.000	.702
Changing consumer attitudes and perceptions (V3)	1.000	.696

IRDAI's directives (V4)	1.000	.754
Sales growth (V5)	1.000	.796
Utilisation of resources (V6)	1.000	.661
Offer of a full product line (V7)	1.000	.718
Balancing declining product (V8)	1.000	.710
Managing product life cycle (V9)	1.000	.728
Maintaining the market position (V10)	1.000	.593
New profit opportunities (V11)	1.000	.638
Social obligation (V12)	1.000	.678

Extraction Method: Principal Component Analysis

Table 3: Total Variance Explained

Component	Initial Eigenvalues			Extraction Sums of Squared Loadings			Rotation Sums of Squared Loadings		
	Total	% of Variance	Cumulative %	Total	% of Variance	Cumulative %	Total	% of Variance	Cumulative %
Meeting competition (V1)	4.452	37.096	37.096	4.452	37.096	37.096	2.820	23.498	23.498
Beating competition (V2)	1.578	13.151	50.247	1.578	13.151	50.247	2.524	21.031	44.529
Changing consumer attitudes and perceptions (V3)	1.241	10.344	60.591	1.241	10.344	60.591	1.762	14.680	59.209
IRDAI's directives (V4)	1.117	9.312	69.903	1.117	9.312	69.903	1.283	10.694	69.903
Sales growth (V5)	.779	6.489	76.393						
Utilisation of resources (V6)	.692	5.768	82.161						
Offer of a full product line (V7)	.597	4.972	87.133						
Balancing declining product (V8)	.488	4.068	91.201						
Managing product life cycle (V9)	.365	3.043	94.245						
Maintaining the market position (V10)	.295	2.460	96.704						
New profit opportunities (V11)	.210	1.747	98.452						
Social obligation (V12)	.186	1.548	100.000						

Extraction Method: Principal Component Analysis.

Table 4: Rotated Component Matrix^a

	Component			
	1	2	3	4
Meeting competition (V1)	.468	.684	.081	-.141

Beating competition (V2)	.119	.576	.395	-.448
Changing consumer attitudes and perceptions (V3)	.133	.684	.232	.397
IRDAI's directives (V4)	.128	.113	.048	.850
Sales growth (V5)	.093	.129	.873	.094
Utilisation of resources (V6)	.777	.154	.123	.136
Offer of a full product line (V7)	.753	.252	.292	.032
Balancing declining product (V8)	.772	.027	-.335	-.039
Managing product life cycle (V9)	.228	.812	-.118	.043
Maintaining the market position (V10)	-.035	.647	.383	.163
New profit opportunities (V11)	.643	.183	.310	.309
Social obligation (V12)	.457	.163	.559	-.170

Extraction Method: Principal Component Analysis.

Rotation Method: Varimax with Kaiser Normalization.

a. Rotation converged in 6 iterations.

Table 5: Product Objectives of LIC of India

S. No.	Factors	Objectives				
		Utilisation of resources	To offer a full product line	To balance declining product	New profit opportunities	-
1.	Effective Product Management	Meeting competition	Beating competition	Changing consumer attitudes and perceptions	Managing product life cycle	Maintaining the market position
3.	Societal Marketing Perspective	Sales growth	Social obligation	-	-	-
4.	Legal Consideration	IRDAI's directives	-	-	-	-

On the basis of principal component analysis, the variance is explained by the initial solution, the extracted components and rotated components, and the results are displayed in Table 3. The first section of the table shows the variance

explained by the initial solution. It also reveals that there are twelve possible factors. In order to choose effective factors, the factors with eigen values more than 1 are requested for extracted solution. The second section of the table shows the

variance explained by the extracted factors before rotation. The cumulative variability explained by these factors in the extracted solution is about 70 percent, which is similar to the initial solution and thus, no initial solution is lost due to latent factors. The rightmost section of this table shows the variance explained by the extracted factors after rotation. The rotated factor model makes some small adjustment to all the eight factors. The results of the factor analysis indicate that four factors are considered important in the product objectives of LIC. In order to obtain the variables of each factor, rotated component matrix has been computed with the help of principal component analysis and varimax rotation. The outcome has been shown in Table 4. The criterion for the choosing the variable in one factor is 0.5 or more.

Table 5 summarises the reasons into four factors. The first factor has been named as 'Effective Product Management' since all the reasons are directly related to the several fundamental objectives of product management viz., "Utilisation of resources-information, new technology, and geographical expansion (.766)", "Offer a full product line (.702)", "Balance declining product (.771)", and "New profit opportunities (.615)". The second factor i.e. 'Strategic Approach' of the Corporation entails "Meeting competition (.700)", "Beating competition (.567)", "Changing consumer attitudes and perceptions (.719)", "Managing PLC (.800)", and "Maintaining the market position (.567)". The third factor 'Societal Marketing Perspective' encompasses "Sales growth (.823)" and "Social obligation (.637)". Last the fourth factor consists of the "IRDAI's Directives (.791)" i.e. a regulatory control, therefore, named as Legal consideration.

Discussion

It has been found in the past studies that the authors have exerted more stress on market share of life insurers, consumer behaviour towards insurance policies, rural insurance, customer relationship management, IRDAI, liberalization and globalization in insurance sector. However, no any study has been carried out in context of product objectives. The present study is distinct from the existing studies as it focuses on the product need of product strategy. It is more specific study which reveals the product objectives. Frylinck (2012) discussed about the sources of product ideas such as foreign market, customers, intermediaries, competitors' new product, etc. Ferris et al. (2008) also emphasised the significance of sources of product ideas in the product development process and ultimately in the growth and success of the firm. Khansili (2004) has advocated the positive impact of foreign market and its collaboration on life insurance product design including product ideas.

Conclusion

Thus, it is evident from the analysis that setting product

objectives is of critical significance for the LIC. The product objectives of the LIC have been analysed with the help of factor analysis. As a result, it classifies the product objectives into four factors such as effective product management (utilisation of resources, offering a full product line, balancing a declining product and new profit opportunities), strategic approach (meeting competition, beating competition, dynamic consumer behaviour, managing product life cycle and maintaining the market position), societal marketing perspective (sales growth and social obligation) and legal consideration (IRDA's directives).

As a matter of fact, still a large chunk of the market is deprived of the insurance cover. Perhaps, the lack of simple and benefitting life insurance product may be the strong reason. Even the educated class of the society in India is not able to understand the complexities pertaining to terms and conditions of the life insurance. In order to overcome such a problem and challenge, LIC needs to ponder intensely in designing the products. In regard to product objectives, product development department along with the coordination and cooperation of other departments should continue to set need based products objectives as per feedback gathered from various sources particularly initiated by marketing people and other stakeholders. The new product objectives should be as per the changing needs of the customer, innovation in the market, and the requirements of different distribution channels of marketing.

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