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LIFE INSURANCE INDUSTRY IN INDIA: A CONSUMER VALUE DERIVATION STUDY

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ABSTRACT

The concept of Consumer value is becoming increasingly used in strategy and marketing literature in recent years. Consumer value is considered central to competitive advantage and long-term success of business organizations. Consequently, a great importance attached to this concept. This review paper attempts to build an integrative configuration of the concept of Consumer value that reflects its richness and complexity. The proposed study aims at researching the end value that the consumer derives from his Life Insurance. Life insurance today, is a multifaceted industry. It comprises of a number of innovative combinations to lure the end consumer. For a country like India, Life Insurance is more than a financial product; it is a means of social security. In such a scenario, it becomes imperative that the consumer's end objective is achieved. The aim of this paper is to evaluate the work in the area of consumer value for Life Insurance Products in India. It also aims at setting a base to propose a model that works in lieu of the claim settlement ratio and provide an exhaustive list of further research directions.

In this paper I have used a systematic literature review to identify building blocks of the conceptual framework, which is the principal contribution of the paper.

KEY WORDS: Life Insurance, Social Security, Value Delivery, Consumer buying decision, Promise Vs Delivery, Distribution Network, Financial Goal accomplishment.

INTRODUCTION:

Life Insurance is the fastest growing sector in India since 2000 as Government allowed Private players and FDI up to 26% and recently Cabinet approved a proposal to increase it to 49%. Life Insurance in India was nationalized by incorporating Life Insurance Corporation (LIC) in 1956. All private life insurance companies at that time were taken over by LIC.

In 1993, the Government of India appointed RN Malhotra Committee to lay down a road map for privatization of the life insurance sector.

With 36 crore policies, India's life insurance sector is the biggest in the world. The sector consists of 52 insurance companies, of which 24 are in life insurance business and 28 in non-life. The life insurance industry in the country is projected to increase at a compound annual growth rate (CAGR) of 12-15 per cent in the next five years. The industry plans to hike penetration levels to five per cent by 2020, and has the potential to top the US$ 1 trillion mark over the next seven years.

The optimistic outlook is helped to a large degree by the Government of India's efforts to strengthen the sector. The Union Cabinet in July approved a proposal to relax foreign direct investment (FDI) limit in the domestic insurance sector to 49 per cent from 26 per cent, signaling the government's intent to draw capital and investment into the sector.

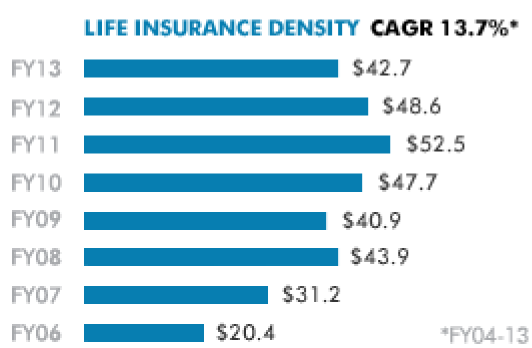
Market size

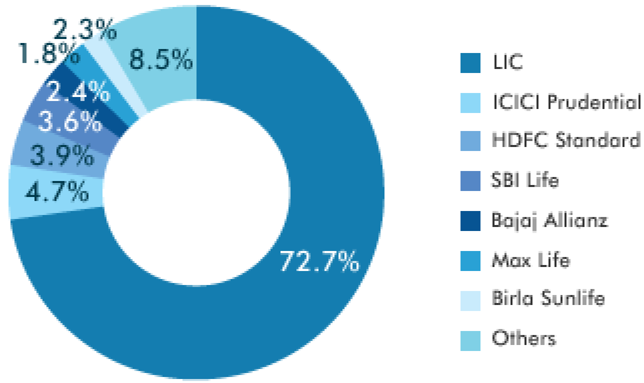
The total market size of the insurance sector in India was US$ 66.4 billion in FY 13. It is projected to touch US$ 350-400 billion by 2020. India was ranked 10th among 147 countries in the life insurance business in FY 13, with a share of 2.03 per cent. The life insurance premium market expanded at a CAGR of 16.6 per cent from US$ 11.5 billion to US$ 53.3 billion during FY 03-13. The non-life insurance premium market also grew at a CAGR of 15.4 per cent in the same period, from US$ 3.1 billion to US$ 13.1 billion.

By 2020, by Boston Consulting Group (BCG) and Google India forecasts that insurance sales from online channels will grow 20 times from present day sales by 2020, and overall internet influenced sales will touch Rs 300,000-400,000 crore (US$ 49.63-66.18 billion).

Investment corpus in India's pension sector is projected to cross US$ 1 trillion by 2025, following the passage of the Pension Fund Regulatory and Development Authority (PFRDA) Act 2013, as per a joint report by CII-EY on Pensions Business in India.

(IBEF 2013)





EXTANT LITERATURE:

Many researchers have conducted researches in the field of Consumer Value and Consumer satisfaction such as Parasuraman et al. , (1985, 1988, 1991, 1993, 1994), Zeithaml et al., (1988, 1991, 1993, 1996), Cronin and Taylor (1992, 1994), Hartline and Jones (1996), Johnston (1997), Lassar, Chris Manolis, and Winsor (2000), Cronin, Brady, and Hult (2000), Caruana (2002), and Abdolreza Eshghi, Sanjit Kumar Roy, and Shirshendu Ganguly (2008).In the year 1985, pioneer research was conducted in the field of service quality by Parasuraman, Zeithaml, and Berry. In their research they came out with service quality dimensions, and succeed in developing five gaps of service quality model. Researchers defined service quality as gap between Consumers' expectations and perceptions about quality of service offered by the service provider. With the help of this research, they were able to develop service quality scale to measure the quality of service quantitatively, and scale was named as SERVQUAL. In 1988, Pararsuraman et al. conceptualized the dimensions of SERVQUAL scale namely; Tangibility, Responsiveness, reliability, Assurance, and Empathy. For these five dimensions a total of 22 items were selected in the service quality instrument. After development of service quality instrument, many researches were conducted in different service set ups by using SERVQUAL.

To examine the process of delivery of service quality, Consumer value and their impact on behavioral intentions of Consumers, Hartline and Jones 17(1996) developed a model, which included same theories and concepts as earlier taken by Bolton and Drew (1991); Boulding et al., (1993). In their research works, they came out with strong evidences that specific performance cues of employees have significant effect on overall quality and as a result, this quality had significant impact on overall Consumer value. Effect of overall Consumer value was found relatively more on behavioral intensions in compared to overall quality. Whereas, the effect of specific performance cues was mediated by overall Consumer value and overall quality. In the year 2000, Cronin, Brady, and Hult conducted research in various service industries by taking into consideration service quality, Consumer value, Consumer satisfaction, and behavioral intentions. They found in their study that service quality, Consumer value, and Consumer satisfaction have direct impact on behavioral intentions, if all these three are taken collectively, whereas indirect effects of service quality and Consumer value increased their impact on behavioral intentions.

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DEFINITIONS OF CONSUMER VALUE:

In this section, I have made an effort to define Consumer Value based on past scholarly works. Below Table presents some of the definitions.

REFERENCE	DEFINITION
Slywotzky (1996)	Creating & Delivering Monetary Worth
A Parsuraman (1997)	Consumer's perceived preference for and evaluation of those product attributes, attribute performances and consequences arising from use that facilitate (or block) achieving the Consumer's goals and purposes in use situations.
Gale (1994)	"Give Vs Get" Consumer evaluation that occur during or after product use.
Slater (2000)	Consumer Value is created when the benefits to the Consumer associated with a product or a service exceed the offering's life cycle cost to the Consumer.
Narver (2000)	Consumer value is achieved when the seller creates more value for the Consumer than does the competitor.
Daniels (2000)	Consumer value is a measure of not just the value perception of your Consumers, but those of your competitor's Consumers as well to arrive at comparative value assessments across the marketplace
Normann and Ramirez (1993)	Level of returns in the product's benefits for a Consumer's payment in a purchase exchange.
Anderson and Narus (1998)	Consumer value is a theoretical construct that captures the Consumer's perspective of a product.
Peter and Olson (1990)	Consumer value represents desirability, usefulness or importance.
Wilkie (1990)	Consumer values refer to the important personal goals that consumers seek
Olson and Reynolds (1983)	Consumer value refers to overall direction, consequences , determine the selection of specific behaviors in specific situation and attributes convey the essence of the tangibles product or service that produce the consequences.
Mahajan (2008)	Value is what Consumers get from what they pay.
Woodruff (1997)	Consumer's preference for and evaluation of attributes, attribute performance and consequences that are perceived through the consumption process.

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Smith and Colgate (2007)	What Consumers get (benefits quality worth utility) from the purchase and use of a product versus what they pay (price costs sacrifices) resulting in attitude towards, or an emotional bond with the product.
Gross (1997)	Consumer value is the replacement of the satisfaction construct by the value construct as a better predictor of outcome variables in business markets.

RESEARCH OBJECTIVES:

To classify CV literature based on theories and models as building blocks of a conceptual framework.

To propose a Modal framework using a pragmatic approach.

To outline further research directions.

METHODOLOGY:

Literature Review has been identified as the strategy that summarizes existing research and helps collate various bodies of knowledge into a meaningful theory. Extensive and systematic literature review is the essence of a review paper. This paper aims at a systematic literature review to be done, deciphering the relevant CV theories and developing a theoretical framework that contributes to the extensive body of knowledge.

The Structural Equation Modeling by way of AMOS 7 is used for Model Building.

SERQUAL Scale is used for studying the derived Consumer value.

EMANCIPATING AND IDENTIFYING THE MISSING LINKS:

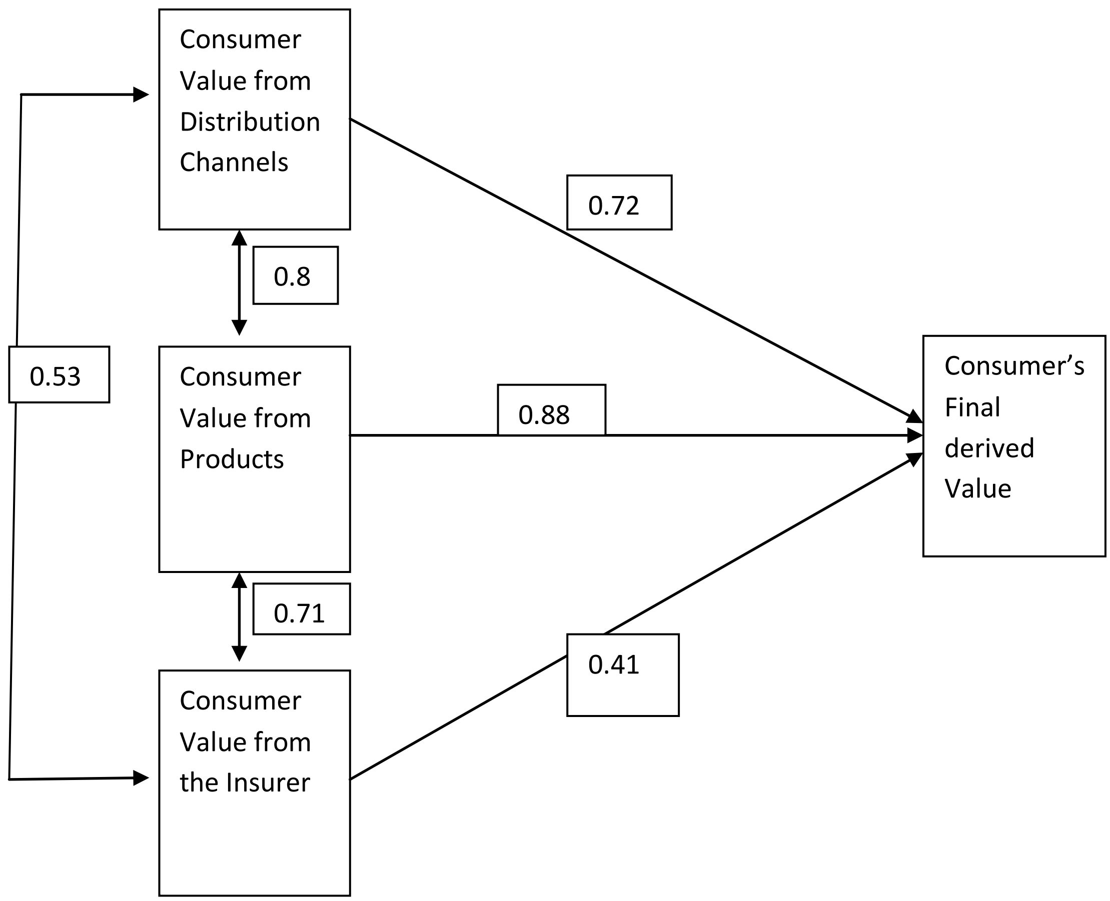
According to Kotler and Armstrong (2001), satisfaction is a person's feelings of pleasure or disappointment resulting from comparing a product's perceived performance (or outcome) in relation to his or her expectations. It is a function of consumer's belief that he or she was treated fairly. Satisfaction is determined by the discrepancy between perceived performance and cognitive standards such as expectations and desires. Consumer satisfaction is the fulfillment of Consumer requirements from certain goods and services. It is defined as the collective outcome of perception, evaluation and psychological reactions to the consumption experience with a product/service. Consumer satisfaction is the only 'mantra' for banks for its sustainable growth and development.

Quite some literature is available on the Consumer value and Consumer satisfaction. The major gap lies in a wholesome study with respect to the derivation levels of Consumer value in Life insurance industry. Life Insurance becomes especially important because it is not just a financial product in India; it's also a social security means for the Indians since there is absence of a proper social security tool by the government. The scope of this paper limits itself to developing a model framework for Consumer value in Indian life Insurance Industry.

IDENTIFIED GAPS:

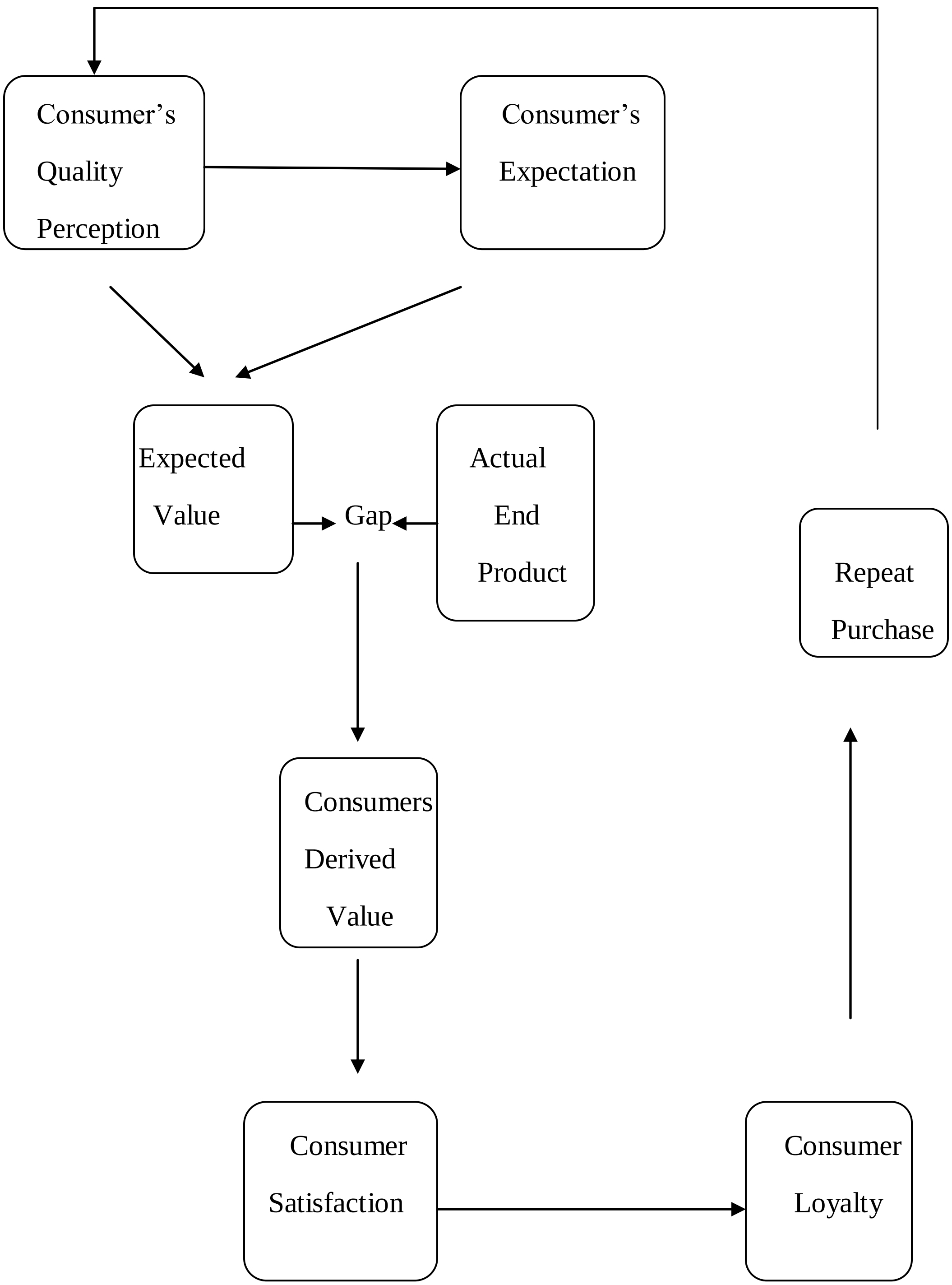
- Distribution (agent) Network
- Gap Between Management perception & Consumer Expectation.
- Earning arising out of Charges rather than the concept of Risk Pooling

BUILDING THE FRAMEWORK:



The above model establishes a strong link between the Value that the Consumer derives from the Distribution channels (agents) and the products. After studying them on a SERQUAL scale, one can infer that they are the two primary reasons that cause the value to deteriorate. Deriving from the ACSI (American Consumer Satisfaction Index) one can imply the Value Index Model in lieu of the Claim Settlement Ratio Model that is currently prevalent in India. The Claim Settlement Ratio model might be misleading. It only tells us if the insurer has redeemed his promise of paying the claim as in the contract. It does not speak about whether the Consumer end objective is met by the product.

The below mentioned framework depicts a flowchart for the process that encompasses every moment of truth for the consumer and thus derives his Consumer value.



CONCLUSION:

In summary, ``Consumer value'' normatively focuses on a buyer's evaluation at the time of a product purchase, while ``consumer values'' descriptively emphasize individuals' valuation of product consumption or possession. Consumer researchers will argue that consumers buy products not for the sake of its ``transactional value'' but for the product's benefits that will satisfy their needs or personal values. However, in an exchange environment, product benefits alone do not completely explain consumers' product choice. Often, consumers may find products desirable ± yet, in assuming that the Consumption of products consumer has adequate financial capacity, one must not equally assume that a purchase will follow. These cases imply that normative points of view are also necessary in consumer choice research. From an economics perspective, consumers may apply cost-benefit evaluation to a purchase decision, at least when the costs are considered ``significant'' (Olshavsky and Granbois, 1979).

As a conclusion, we can suggest that while Consumer value has traditionally been considered an ``off the balance sheet'' asset, managers are realizing that modeling these issues is a necessary consideration in developing a coherent understanding of company activities and resources. Research on valuing consumers as assets, and on how managers become responsible for developing their value, has not, to our knowledge taken place. Future research and practice has to recognize, that the actual values which managers manage are neither subjective (``in'' an individual) nor objective (``in'' the object), be they exchange value or utility values.

FURTHER RESEARCH DIRECTIONS:

This paper opens up various areas in the field of Consumer value especially in the life insurance industry. The previous researches done in this field contribute to the service orientation leaving a major gap in end objective accomplishment. Also, there can be further work done on perceptual mapping of service expectation in life insurance industry.

The Value Index model which has been proposed the lieu of Claim Settlement Ratio needs to be validated in future research.

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