The Impact of Service Quality on the Financial Performance in Insurance Industry with References to General Insurance Industry

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Abstract

The insurance sector is a major contributor to the financial savings of the household sector in the country, which are further channelized into various investment avenues. The overall growth in the insurance industry has been positive. From 2000 onwards, the private players have started entering the market. The private players have made more gains in a short period than anyone could imagine. They have succeeded in putting the public players on the defensive for retention of their corporate accounts in fire and engineering segments that are profitable. On the other hand, public players are now focusing on retaining the existing customer rather than the expansion strategy. The public players are now more vulnerable to lose their pre-eminent position. The private players aim at customer satisfaction through their marketing programmes. By that, they want to achieve their financial performance of their company. Hence, it is essential to concentrate on the marketing aspects to achieve the financial performance of public players. The changing face of insurance industry stresses the need for paradigm shift in public players policies also. Hence, the present study focuses on the financial and marketing performance of public players and also the relationship between the two performances especially among the public players for some policy implications.

Keywords: General Insurance, Financial Performance, Service Quality, Public Sector General Insurance, Private Sector General Insurance

Introduction

India's rapid rate of economic growth over the past decade has been one of the most significant developments in the global economy. This growth has its roots in the introduction of economic liberalization in the early 1990s, which has allowed India to exploit its economic potential and raise the standard of living of the people. The insurance sector was liberalized in 2000 allowing entry of private players to provide competition to the monopolistic regimes of the General Insurance Corporation of India and its four subsidiaries.

There were several reasons behind the nationalization of the insurance sector. Firstly, the government wanted to channel more resources to national development programmes. Secondly, it sought to increase insurance market penetration through nationalization. Thirdly, the government found the number of failures of insurance companies to be unacceptable. The government argued that the failures were the result of mismanagement and nationalization would help better to protect policyholders.

From 2000 onwards, the private players have started entering the market. The important private players namely

The Royal Sundaram, the Reliance, the Iffco-Tokio, the Tata AIG, the ICICI Lombard and the Bajaj Alliance together performed a GDPI of Rs.465.80 crores in 2002. It is increased to three fold times over five years. [1] The private players, also, have many legacy problems faced by other public players like bloated costs, union pressures, bureaucratic culture and customer apathy.

Objectives of the Study

The Present Study Focuses on the Following Objectives

- To examine the financial performance of the public sector general insurance companies,
- To study the profile of the policy holders the factors leading to buy the policies and choose the insurers,
- To examine the marketing performance of the insurance companies regarding the customer's perspective
- To analyze the relationship between marketing performance and the financial performance of insurance companies.
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Methodology and Collection of Data

The present study followed the descriptive and diagnostic research method. The study has also attempted to analyze the relationship and functional relationship between the variables included in the study. The financial performance of the four public sector insurance companies has been analyzed by the financial facts collected from the various annual reports of the insurance companies from 1996-97 to 2006-07. The marketing performance of the insurance companies has been measured by the customer's perception of various aspects in the insurance companies with the help of a pre-structured questionnaire.

Sampling Design

In Tamilnadu, 20 important cities have been purposively selected for the study. From each city, one branch of the four insurance companies - NIA, UIIC, NIC and OIC has been randomly selected for the present study. 80 branches of the four insurance companies have been included. From each insurance company, 10 customers have been purposively selected for the study. Out of the determined sample size of 800 customers, the response rate is 72.00 percent.

Frame Work of Analysis

For analyzing the financial data, the mean, standard deviation and coefficient of variation have been computed regarding each financial facts and ratio. Apart from this, the annual and compound growth rate of financial facts and ratios were computed to exhibit the trend of the financial performance of the insurance companies. One-way Analysis of Variance, Factor Analysis, Correlation Analysis, Multiple Regression Analysis, Multiple Discriminate Analysis, ServQual Analysis was also used.

Limitations of the Study

The study highlights the performance (Financial and Marketing Performance) of the General Insurance Companies at the national level; it is with the following limitations.

The present study focuses on the performance of the four general insurance companies with the help of available financial facts. Hence only the financial ratios have been computed to exhibit their financial performances.

Only the public sector general insurance companies have been selected for the present study at the national level since the data related to the micro-unit at the state level and unit level are not easily accessible.

The investors on more than one type of general insurance policies have been excluded since the present study has attempted to focus on the comparative analysis of all the three types of policy holders – Fire, Marine and Motor and Others.

Review of Literature

Van Der Wiele et al., (2002) provided some evidence for the links between customer satisfaction and overall business performance. The increase in customer satisfaction leads to better performance of the firm in all aspects.

Yoo and Park (2007) [2] showed that how firms can enhance their service quality to increase customer satisfaction and thus financial performance. Four factors (i.e., employees, perceived service quality, customers, and financial performance) are critical to the success of service firms. This provides a research framework that examines relationships among employees, perceived service quality, customers, and financial performance.

Service quality is usually defined as the customer's impression on the relative inferiority / superiority of a service provider and its services (Bitner and Hubert, 1994)[3] and is often considered similar to the customer's overall attitude towards company (Parasuraman et al., 1988[4]; Zeithaml, 1988[5]; Bitner, 1990).[6] Parasuraman et al., (1991) [7] measured the service quality with the help of 22 service attributes and formed the gap analysis model. It is the scale of measurement of service quality which finds the difference between the perception and expectation of each service attributes. Later, Cronin and Taylor (1992)[8] used the performance measurement to measure the service quality it is called as SERVPERF scale. Bolson and Drew (1994) [9] and; Saurina and Coendes (2002)[10] supported the SERVPERF scale.

Udeqbunam Ralph, (2001) found that there was a performance difference among commercial banks in Nigeria. The widespread financial distress and bank failures were primarily determined by the return on the assets among banks, the total expense to the total assets, assets utilization ability of the management, equity capital to the total assets and loans to the total deposits. The performance of commercial banks is influenced by capital adequacy, credit risk and management efficiency.

Financial Performance Metrics for Insurance Industry

Table 1 Impact of Performance Metrics on Operating Profit Ratio

Sl. No.	Performance Metrics	Regression coefficient in				
		NIA	UIIC	NIC	OIC	Pooled
1.	Market Share	0.2917*	0.1997*	0.3144*	0.4104*	0.3866*
2.	Claim Ratio	0.0114	-0.1033	0.1036	-0.0963	-0.0811
3.	Expenses ratio	-0.1453*	-0.0869	-0.1147	-0.1202	-0.1036
4.	Operating Ratio	-0.1963*	-0.1584*	-0.1863*	-0.14411*	-0.1718*
5.	Investment Ratio	0.3146*	0.2036*	0.3242*	-0.3964*	0.2868*
	Constant	0.8143	0.7334	0.9141	0.8247	0.8089
	R2	0.7247	0.6869	0.7408	0.7404	0.8414
	F-Statistics	8.1708*	7.3142*	9.9641*	9.2362*	11.334*

* Significant at five per cent level

Table 2 Perceived Value among the Customers in Insurance Companies

Sl. No	Insurance Company	Particulars			
		Number of Customers	Mean	Standard deviation	Co-efficient of variation (in percent)
1.	New India Assurance (NIA)	104	3.5497	0.5141	14.48
2.	United India (UIIC)	113	3.5895	0.6829	19.02
3.	National Insurance (NIC)	109	3.1969	0.3906	12.22
4.	Oriental Insurance (OIC)	105	3.2239	0.4496	13.94
	Overall	431	3.3915	0.4808	14.18

The performance of the insurance companies can be correctly assessed with the help of the following performance metrics apart from regular financial ratios.

Market share:

Loss/claim ratio:

Expense ratio:

Operating ratio:

Investment ratio:

The above Table 1 illustrates the impact of various performance metrics on the operating profit of the insurance companies. In the case of the NIA, the significantly influencing metrics are market share, expenses ratio, operating ratio and investment ratio. A unit increase in market share and investment ratio result in an increase in operating profit by 0.2917 and 0.3146 units respectively whereas a unit increase in expenses ratio and operating ratio results in a decrease in operating profit by 0.1453 and 0.1963 units respectively. In the UIIC and the NIC, the significant impact on operating profit is contributed by market share, operating ratio and investment ratio. The market share is having a positive impact whereas the other two ratios are having negative impacts. The same trend is also noticed in the case OIC. The changes in operating profit are explained by the changes in performance metrics to the extent of 84.14%.

Marketing Performance in Insurance Companies

The marketing performance in insurance companies has been discussed by the customer's perception of three performance factors namely perceived value, customer satisfaction and repurchase intention. The mean score of customer's perception on perceived value among the customer in each insurance company has been computed to exhibit the mean of perception on perceived value in four groups of insurance companies. The standard deviation and co-efficient of variation in the score on perceived value among the four groups of insurance companies have been computed separately. The overall mean, standard deviation and the co-efficient of variation on customer's perception on perceived value have also been computed. The results are given in Table 2.

The higher perceived value among the customers is identified in the UIIC with the mean and co- efficient of variation of 3.5895 and 19.02 percent level. It is followed by the NIA with the mean and co-efficient of variation of 3.5497 and 14.48 percent respectively. The analysis reveals that the customers in the UIIC and NIA have a higher perceived value compared to other customers in the NIC and OIC.

Service Quality in Insurance Companies

The service quality in insurance companies has been derived from the mean score of customer perception on various service quality factors among the customers in each insurance branch. The mean score of customer

Table 3 Relationship between Service Quality and Financial Performance in Insurance Companies

Sl. No	Service Quality Factors	Correlation Co-efficient in Insurance Companies			
		NIA	UIIC	NIC	OIC
1	Reliability	0.4586*	0.3808*	0.3918*	0.3108*
2	Responsiveness	0.3801*	0.5061*	0.4241*	0.4266*
3	Empathy	0.3469*	0.4102*	0.5084*	0.3607*
4	Assurance	0.3114*	0.3919*	0.3565*	0.3724*
5	Tangibles	0.2969*	0.4233*	0.3234*	0.3244*

* Significant at five per cent level.

Table 4 Impact of Service Quality on Financial Performance

Sl. No	Service Quality Factors	Regression co-efficient in				
		NIA	UIIC	NIC	OIC	Pooled
1.	Reliability	0.1364*	0.2668*	0.3114*	0.2086*	0.2452*
2.	Responsiveness	0.0917	0.1509*	0.2043*	0.1442	0.1209*
3.	Empathy	0.2602*	0.1664*	0.1784*	0.2661*	0.1913*
4.	Assurance	0.1445*	0.0314	0.0563	0.1083	0.0686
5.	Tangibles	0.0149	0.0962	0.1149*	0.0456	0.0744
	Constant	1.2417	0.9334	1.4024	0.8684	1.0916
	R2	0.7314	0.6908	0.7114	0.6338	0.7904
	F-Statistics	10.2394*	9.8644*	10.1408*	8.1243*	12.3143*

* Significant at five per cent level

Perception on various service quality factors namely Reliability, Responsiveness, Empathy, Assurance and Tangibles have been computed with the respective standard deviation and co-efficient of variation in four groups of insurance companies to exhibit the customer perception on service quality factors in the selected four groups of insurance companies.

A Relationship between Service Quality and Financial Performance

In general, service quality has a positive relationship with the financial performance of insurance companies. The perception of service quality among the customer is classified into a perception of Reliability, Responsiveness, Empathy, Assurance and Tangibles. The scores of service quality factors are related to the financial performance of insurance companies with the help of Karl Pearson correlation co-efficient. The computed correlation co-efficient and its statistical significance are given in Table 2

In NIA, all service quality variables are positively correlated with higher correlation co-efficient in Reliability. In the UIIC, higher correlation co-efficient is between Responsiveness and Financial performance. In the case of the NIC and OIC, higher correlation with the financial performance is identified as Empathy and Responsiveness respectively.

Impact of Service Quality on Financial Performance of Insurance Companies

The perception of service quality factors among the customers in insurance companies may have its impact on the financial performance of the insurance companies. The score of the perception on the service quality factors namely Reliability, Responsiveness, Empathy, Assurance and Tangibles are treated as the score of independent variables whereas the financial performance of the insurance companies is taken as the dependent variable. The multiple regression analysis has been executed to find out the impact of service quality factors in insurance companies. The resulted regression co-efficient is given in Table

The significantly influencing services qualities on the net operating profit in the NIA are a perception of Reliability, Empathy and Assurance since their regression co-efficient are significant at five percent level.

In the case of UIIC, the significantly influencing service quality factors are Reliability, Responsiveness and Empathy since their respective regression co-efficient are significant at five percent level whereas, in the NIC, these service quality factors are Reliability, Responsiveness, Empathy and Tangibles since its regression co-efficient are significant at five percent level.

The analysis of pooled data reveals that a unit increase in Reliability, Responsiveness and Empathy result in an increase in the financial performance of the insurance companies by 0.2452, 0.1209 and 0.1913 units respectively. The changes in the perception of service quality factors explain the changes in the financial performance of insurance companies to the extent of 79.04 percent. The significant 'F' statistics show theThe marketing performance may end with the financial Performance of any company. In the present study the

Table 5 Relationship between Marketing and Financial Performance in Insurance Companies

Sl. No	Service Quality Factors	Correlation Co-efficient in Insurance Companies			
		NIA	UIIC	NIC	OIC
1	Perceived value	0.5142*	0.4331*	0.3906*	0.4109*
2	Customer satisfaction	0.4029*	0.3114*	0.3192*	0.3262*
3	Repurchase intention	0.2919*	0.2336*	0.2507*	0.2826*

* Significant at five per cent level

Table 6 Impact of Performance Factors on the Financial Performance of Insurance Companies

Sl. No	Service Quality Factors	Regression co-efficient in				
		NIA	UIIC	NIC	OIC	Pooled
1.	Perceived value	0.2686*	0.1803*	0.1244	0.1029	0.1403*
2.	Customer satisfaction	0.1434*	0.2142*	0.1908*	0.2304*	0.1817*
3.	Repurchase intention	0.2713*	0.1916*	0.2217*	0.1533*	0.2096*
	Constant	0.9137	1.3304	1.0833	1.1446	0.9236
	R2	0.6331	0.6104	0.7208	0.6506	0.8133
	F-Statistics	9.3842*	8.2331*	10.6184*	8.6084*	13.4084*

* Significant at five per cent level the validity of the fitted regression model.

A Relationship between Marketing Performance Variables and Financial Performance in Insurance Companies

The marketing performances in the present study are narrated into perceived value, customer satisfaction and repurchase intention. The score on the above said three marketing performance factors are drawn from the mean score of these factors among the customers in each insurance company. The score of these factors is considered as the score of the independent variables whereas the financial performance is counted as the dependent variable. Initially, the correlation co-efficient between the marketing variables with net operating profit of insurance companies in the NIA, UIIC, NIC and OIC have been computed separately to exhibit the relationship between these variables one by one. The 'F' statistics have been administered to test the significance of correlation co-efficient. The results are given in Table 4. In all four groups of insurance companies, the significant and positive correlation is identified in the case of marketing performance factors and the financial performance of the insurance companies since their respective correlation co- efficient is significant at five percent level. The higher positive correlation is identified between perceived value and financial performances in all four insurance companies since their respective correlation co-efficient is 0.5142, 0.4331, 0.3906 and 0.4109.

Impact of Marketing Performance Factors on the Financial Performance in Insurance Companies

Marketing performances are analyzed by perceived value, customer satisfaction and repurchase intention among the customers in insurance companies. The score on the above said three marketing performance factors is treated as the score of independent variables whereas the financial performance of the insurance companies is treated as the score of a dependent variable. The multiple regression analysis has been administered to find out the significant impact of marketing performance factors on financial performance in insurance companies.

The impact has been analyzed in all four groups of insurance companies and also for pooled data. The results are given in Table 5

In the NIA, the significantly influencing marketing performance factors on the financial performance of the insurance companies are perceived value, customers satisfaction and repurchase intention since their regression co-efficient are significant at five percent level. The change in financial performance is explained by the changes in marketing performance factors to the extent of 63.31 percent.

In the case of the UIIC, the significant factors are perceived value, customer satisfaction and repurchase intention whereas in the NIC and OIC these factors are customers' satisfaction and repurchase intention since their respective regression co-efficient are significant at five percent level. The analysis of pooled data reveals that a unit increase in marketing performance factors results in an increase in the financial performance of the insurance companies by 0.1403, 0.1817 and 0.2096 units respectively.

Findings of the Study

The findings of the study are summarized and presented below.

All organizations in a competitive environment have recognized the fact that customer satisfaction is the key to their survival and prosperity. The biggest hurdle for non-life players is the sheer size of the market regarding geographical spread and demographics. Apart from product innovation, a good distribution strategy will be the key to success for any new entrant. It would, therefore, be necessary for the four state-owned general insurers to take a cue from LIC that is going through a similar phase. Insurance is sold and not bought is what the four state-owned players need to realize. The current research explicitly examined the link between customer service quality and financial performance measures and, specifically, customer service quality is positively linked to measures of financial performance. This research provides empirical evidence that customer satisfaction mediates between perceived service quality and financial performance. This research may help insurance firms to understand how the important elements (i.e., employees, customers, perceived service quality, and financial performance) interact to influence the overall performance.

By the marketing performance, the significant differences among the four public insurers have been noticed in the case of customer satisfaction and repurchase intention. The service quality dimensions have a significant positive impact on a marketing performance namely perceived value on insurers, customer satisfaction and their repurchase intention. The significantly influencing marketing performance factor on the financial performance of public insurer is perceived value and customer satisfaction.

The present study finalizes its conclusion by the financial performance of the public insurers which is not up to the mark whereas the entry of private insurers intensifies the problem among the public insurers. The public insurers are very weak in investment management even though they got a huge market base. The marketing performance of the public insurers is somewhat moderate but lesser than the service quality offered by private insurers. If the public insurer realizes the virtual problems in the global scenario, they can maintain their market share and their performance.

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