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## Customer Satisfaction in Life Insurance Market in Mizoram

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### Abstract

*This study is based on a customer survey which was limited to the policyholders of the Life Insurance Corporation of India (LIC) belonging to Mizoram, a small State of Northeast region in India. The main purpose of the study is to understand the perceptions and satisfactions of the LIC customers in respect of certain aspects such as the difficulties involved in obtaining personal loans from LIC, time required in completing a transaction in the branch office, employee behaviour, competitive products and complaining behaviour. LIC should continuously assess whether it possesses the right employee skills, motivation and customer oriented culture. This would enable the market leader in positioning its products in a right way so that customers get the value they are looking for.*

**Key words:** Agent, Customer Satisfaction, LIC, Premium

### Introduction

In a service business customers have certain expectations in mind prior to consumption; they experience service performance and compare it with their expectations, and then form satisfaction judgement based on this comparison. If the service is worse than expected, the judgement is called negative disconfirmation. If the service is better than expected, it would lead to positive disconfirmation (Oliver 1996). The research evidence suggest that when there is substantial positive disconfirmation along with pleasure and an element of surprise, then the customers are likely to be delighted.

There is research evidence of strategic links between the degree of customer satisfaction and the overall performance of a firm. Fournier and Mick (1999) observed that satisfaction is an active and dynamic process that evolves over time and should not be construed only from the perspective of a single transaction. Customer satisfaction is not an end itself, as noted by Lovelock (2003). In fact it is the means to achieving a number of key business goals: **a.** Satisfaction is inextricably linked to customer loyalty and relationship commitment; **b.** Highly satisfied customers spread positive word of mouth,

thus lowering the cost of attracting new customers; **c.** Highly satisfied customers may be more forgiving. High satisfaction acts like an insurance policy against the impact of a single failure; **d.** Delighted customers are less susceptible to competitive offerings.

Customer satisfaction is the individual's perception of the performance of the product or service in relation to his or her expectations (Schiffman and Kanuk, 2008). Today's customers expect salespeople to have a deep product knowledge, to add ideas to improve the customer's operations and to be efficient and reliable (Kotler et al 2007). According to Johri (2000), a dissatisfied customer shares his experience with at least 11 persons, each of whom in turn conveys to another five persons.

### Objective and Methodology

This article is aimed at understanding the perceptions and satisfactions of customers of Life Insurance Corporation of India (LIC) in Mizoram, a small State in India's Northeast, in respect of certain aspects namely difficulties involved in obtaining personal loans, time required in completing a transaction, lapsation of

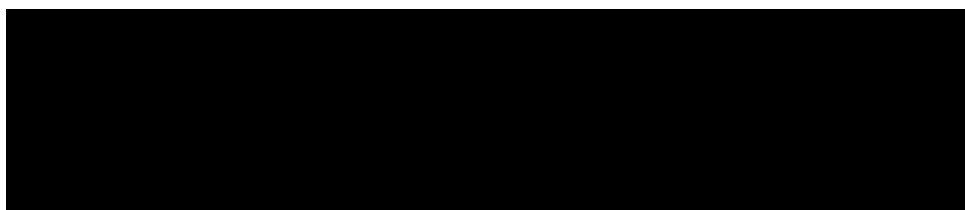
policies, surrendering the policy, behaviour of employees, competitive products, complaining behaviour, etc. The survey was conducted in 2009 which was confined to the policyholders of LIC in Mizoram. A person who purchased at least a single policy from LIC and who has a minimum five years of experience as a customer of LIC were the criteria used for drawing the sample of policyholders. The sample consisted of a total of 160 policyholders. The sample was drawn equally from eight districts of Mizoram viz. Aizawl, Champhai, Kolasib, Lawngtlai, Lunglei, Mamit, Saiha and Serchhip. Thus the sample consisted of 20 LIC policyholders of each of eight districts. The respondents were selected by using purposive sampling technique. For this purpose, the respondents were identified in consultation with the only branch office of LIC located in Aizawl and its agents.

### Results and Discussion

#### *Difficulties faced due to agents*

Table 1 shows that 136 respondents (85 per cent) have never faced any problem with the agents of LIC. 22 respondents (13.75 per cent), however, experienced some problem with the agents.

**Table 1: Have you ever experienced any Problem due to LIC Agents?**



Source: Field survey

n=160 respondents

Table 2 shows three kinds of problems confronted by the respondents with regard to LIC agents. 15 out of 22 respondents faced problem in getting help of the agents in depositing premium. Three respondents faced problem relating to revival of policy and four respondents complained of misappropriation of premium. Some of the respondents from remote areas of Mizoram used to remit their premiums through the agents. In certain occasions dishonest agents created problems such as misappropriation and omission.

**Table 2: Nature of Problems with LIC Agents**

Source: Field survey

n= 22 respondents

In a land locked hilly state like Mizoram decentralisation of premium collection is the need of the hour. For this purpose, branches of the commercial banks including rural banks in the interior parts of Mizoram may be authorised, if possible, to collect premiums on behalf of LIC. The main problem in Mizoram is road connectivity; transportation from one place to another is time consuming and expensive. There is no rail transport in the state. Further, the respondents were not timely informed regarding their due date of premium. The Corporation can remind the policyholders of their dues through SMS alerts or other means of communication.

***Personal loans***

Policyholders are eligible to take loan on their policies subject to certain terms and conditions. The LIC advances loans to policyholders in times of their need. Personal loans are offered to policyholders

to meet their short-term financial requirements. The loan scheme enables the policyholders to establish a strong bond with the LIC, which is also advantageous to the LIC as it helps in promoting its business prospects.

As shown in the Table 3, only 10.63 per cent (17 respondents) have availed loan facility from LIC. 86.25 per cent of the respondents never applied for any loan from LIC.

The loan amount is calculated depending on the Surrender Value (SV). Approximately 85 per cent of the SV is given as loan. Presently, LIC is charging nine per cent interest on policy loans. Interest is payable half-yearly. If loan is not repaid during the term of the policy or early claim, the amount of loan plus interest, if any, will be deducted from the claim money and the balance amount will be paid to the claimant (Wings Ready Reckoner 24<sup>th</sup> edition).

**Table 3: Have you ever Received Loan from LIC against your Policy?**



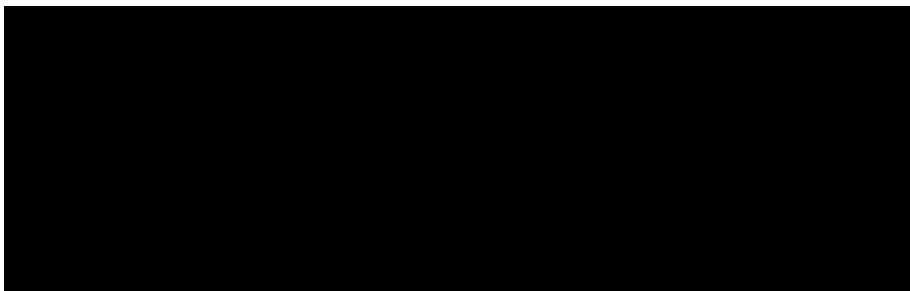
Source: Field survey.

n= 160 respondents

As shown in Table 4, ten out of 17 respondents were satisfied with the easy process of getting loan and two respondents each expressed concern about the lengthy process of getting loan and interest on loan amount. Overall results

show the majority respondents were very satisfied with LIC's terms and conditions and the procedure involved in getting loans. Two respondents advocated continuing the present system of granting personal loans against their policies.

**Table 4: Respondents' Opinion about Loan from LIC**



Source: Field survey.

n=17 respondents.

***Time required in completing a transaction***

The respondents were asked to indicate the normal time required in completing their transactions viz., payment of premium, receipt of loan and receipt of maturity amount etc. In the field survey it is observed that this particular question was not applicable for most of the respondents. Therefore, a high percentage of 'no response' may be noted in the table. For example, in case of

remittance of premium in general the employees prefer to pay through the SSS.

20 out of 160 (12.5 per cent) respondents were satisfied as it took less than 30 minutes time for premium payment at the counter. 30 out of 160 (18.75 per cent) complained that it takes half an hour to 1 hour and again 30 out of 160 (18.75 per cent) respondents said it takes days together. Usually, the respondents from far areas remit their

premium through their agents and other intermediaries. Respondents particularly from remote areas other than Aizawl have experienced the difficulty in premium payment, withdrawal of money back amount, receipt of loan etc. It may be recalled that there is only one branch office of LIC in Mizoram. In this hilly State, surface transport is time consuming, expensive and often disrupted by landslides during the rainy season. The Internet facility is neither available nor functional in remote areas. Even if many respondents were computer literate, most

of them were not in the habit of using IT for getting required services from LIC. However, regarding time consumption in payment of premium, at present there is a positive change and improvement in the system.

Relating to the facility of online payment the LIC branch in Mizoram has to conduct customer awareness campaign frequently in order to sensitise the policyholders about the methods and advantages of using the facilities cited above.

**Table 5: What is the Normal time required by LIC in completing your Transaction?**

Source: Field survey.

n=160 respondents

Note: As this question was not applicable to many respondents they did not respond.  
Resp.= Respondents.

***Lapsation of policies***

In general, lapse is the discontinuance of the policy due to non-payment of premium due. Lapsation of life insurance policies in normal circumstances will not

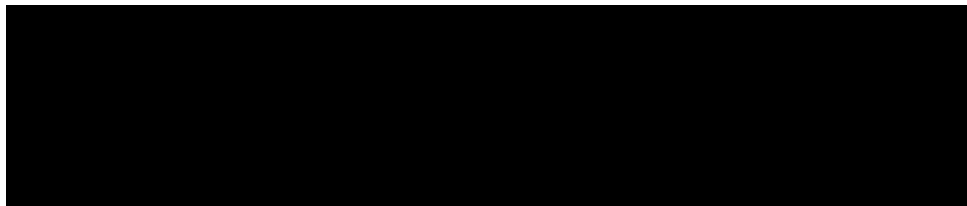
be beneficial to either of the parties in the contract. The erosion of numbers due to natural reasons and for reasons contracted against is inherently inevitable. However, erosion of numbers due to lapsation of life insurance policies is not inevitable.

Lapsation of life insurance policies is the most disturbing feature of Indian life insurance business, which is very high by international standards. For example, over 752,000 insurance policies of the LIC alone have lapsed. The sum assured involved in lapsed policies is in excess of Rs. 47,000 crores (Rs.470 billion). Insurance regulator IRDA has recommended a uniform grace period of 30 days for policyholders paying their premium every quarter, half-year or every year. A 15-day grace period has been suggested for policyholders paying monthly premium (Kumar 2009).

As shown in Table 6 out of 160 respondents only 14 respondents (8.75 per cent) have lapsed policies. This ratio is far better than the all India average.

Lapsation of insurance policies is a global concern and impacts all stakeholders. In life insurance industry one of the most important factors affecting the health of life insurance companies is lapsation of policies. Combined experience of all Indian insurers suggests that “First premium lapse rate” prior to nationalisation (1956) was about 27 to 36 per cent. Since nationalisation of LIC, it was never be less than 14 per cent except the period 1969-70 where the first premium lapse was 13.92 per cent. On an average, 18 per cent of first premium lapse was common for LIC before opening up of insurance sector in the year 2000. LIC’s lapsation ratio was around 25 per cent, while it was around 40 per cent for private insurers (Kumar 2009).

**Table 6: Have you ever had any Lapsed Policy?**



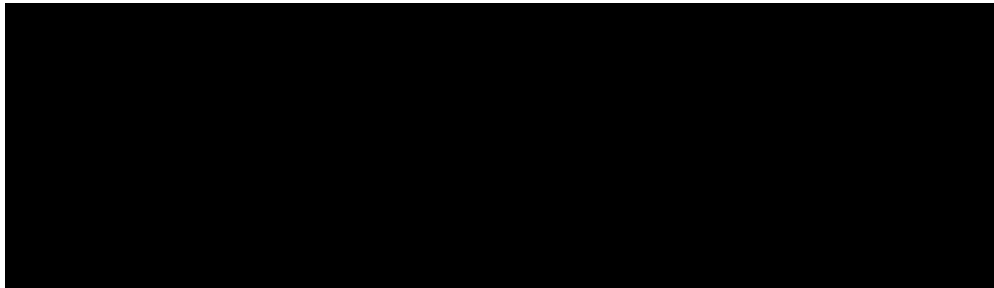
Source: Field survey.

n=160 respondents

Table 7 shows the reasons for lapsation of policies. Six out of 14 respondents said that their policies have lapsed due to agent’s failure to pay premium in time. In Mizoram, there were a few instances where some dishonest agents misappropriated the premium amount given by the policyholders. Interestingly, this is one of the reasons for lapsation of policies in case of some

respondents in the present study. In fact, it was found that a few dishonest agents misappropriated the policyholders’ premium. Such customers happened to be from remote localities of Mizoram, came to know only after the policy was lapsed. Lapsation was also caused by financial constraint of the policyholders, lack of interest on the part of policyholders, and switching over to other investment options.

**Table 7: Reasons for Lapsation of Policy**



Source: Field survey.

n= 14 respondents.

It is observed that aggressive selling without disclosing all the facts, misselling by the agents and absence of follow-up action (like reminding the customers on the part of the Corporation and agents) cause lapse of policies. Aggressive and misselling involve forced selling by agents to achieve their sales targets without taking customers' financial affordability and interest into account.

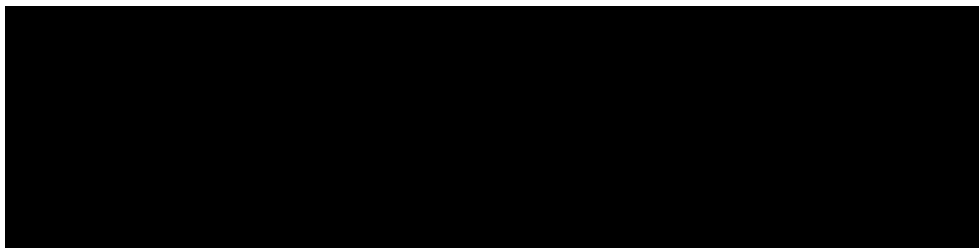
***Surrendering the policy***

The lapsed policies may be surrendered or revived. The lapsed policies can be revived on payment of premiums in arrears. If the insured is unwilling or unable to pay the premium of the policy, the policyholder can surrender the policy and ask for remittance

of its surrender value to him. Surrender value depends on the type of policy and number of premiums paid. A policy can be surrendered only when the premium is paid for a minimum period. Surrender of policy is not recommended since the surrender value would always be proportionately low.

Table 8 shows the number of times the respondents have surrendered their policy so far. The respondents were asked to mention the number of policies they have surrendered so far. Out of 160 respondents, only 12 respondents surrendered their policies so far. Seven respondents (4.38 per cent) surrendered once; two respondents (1.25 per cent) surrendered twice; three respondents (1.88 per cent) surrendered thrice.

**Table 8: How Many Times have you Surrendered any Policy of yours so Far?**

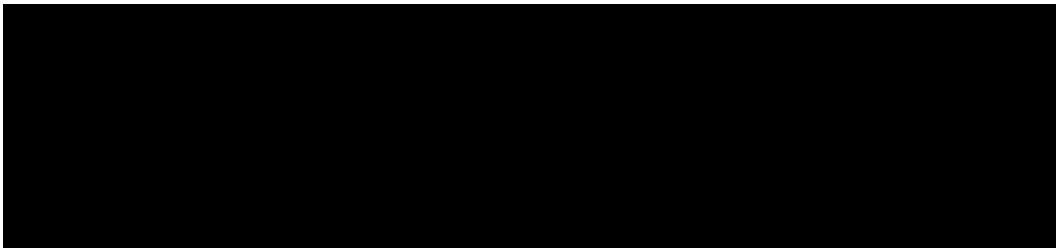


Source: Field survey.

n=160 respondents

Table 9 shows the reasons for surrendering the policy. Eight out of 12 respondents surrendered policies due to financial constraints, and two respondents switched over to other insurance products offered by private companies. The remaining two policyholders had diversified to other investment options.

**Table 9: What are the Reasons for Surrendering the Policy?**



Source: Field survey

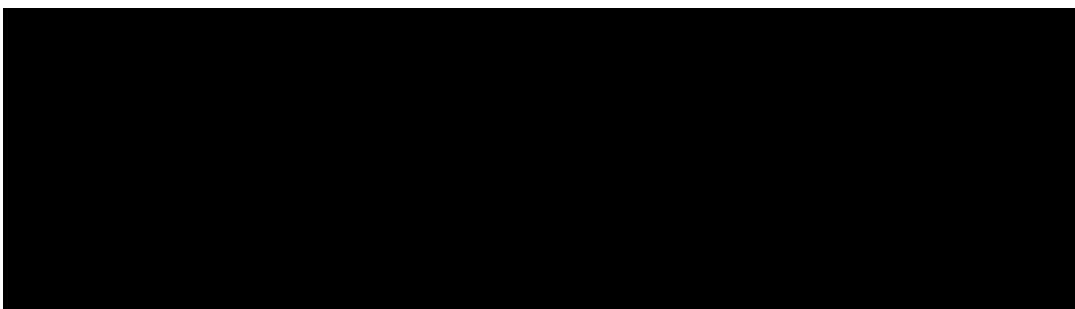
n= 12 respondents

***Perceptions about employee behaviour***

The respondents were asked to express their feelings about the behaviour of officers and staff of LIC. The behaviour is related to habitual characteristics of individual employees of LIC, namely hospitality, punctuality, courtesy, answering queries and their overall behaviour towards customers. The respondents were asked to rate these

habitual characteristics on a five point scale ranging from poor to excellent. Table 10 shows the weighted scores and mean scores relating to the five habitual characteristics. The mean scores are: Hospitality (2.71), Punctuality (2.69), Courtesy (2.74), Answering queries (2.83) and Overall behaviour (2.93). The mean scores fall within the range of Fair to Good and none of the mean scores was above 3.

**Table 10: Respondents' Feelings about Employee Behaviour**



Source: Field survey.

n=160 respondents.

Therefore, it is clear that there is a lot of scope to improve the behavioural characteristics of employees in LIC. Frontline managers like cashier in the



counter need to be customer friendly. In the case of LIC branch in Aizawl, it has to serve customers who speak different languages. Further, the customers belong to heterogeneous background in terms of education, income etc. At times it is observed that customers find it difficult to understand the language of the dealing staff. Such kind of communication problem can be addressed at the branch level by imparting required language skills and through continuous intensive training programmes on customer orientation. In this context, it is observed that there is a general feeling among the respondents that the private players pay utmost attention with appropriate behaviour to their customers.

***LIC's service quality vis-à-vis other competitors***

As shown in Table 11, 23.12 per cent of the respondents felt services offered by LIC are better than that of other life insurance companies. 16.88 per cent of the respondents didn't agree with the statement. 60 per cent were undecided. In other words, an overwhelming 76.88 per cent of the respondents did not perceive LIC's services superior vis-à-vis competitor's offerings. Whether the Corporation takes care or not, policyholders would certainly evaluate service quality on their own way. In this context the service firms like LIC should understand and follow the marketing advice provided by Zeithaml et al. (1990) relating to delivery of quality service.

**Table 11: LIC's Services are Superior to that of Other Private Insurers**

Source: Field survey

n=160 respondents

Zeithaml et al. (1990), in their focus-group research identified 10 criteria used by customers in evaluating service quality. According to them, the Generic Dimensions used by customers to evaluate service quality were: Credibility (trustworthiness, believability, honesty of the service provider); Security (freedom from danger, risk, or doubt); Access (approachability and ease of contact);

Communication (listening to customers and keeping them informed in language they can understand); Understanding the customer (making the effort to know customers and their needs); Tangibles (appearance of physical facilities, equipment, personnel, and communication materials); Reliability (ability to perform the promised service dependably and accurately); Responsiveness (willingness

to help customers and provide prompt service); Competence (possession of the skills and knowledge required to perform the service); and Courtesy (politeness, respect, consideration and friendliness of contact personnel).

In subsequent research, Zeithaml et al. (1990) consolidated these ten Generic Dimensions into five broad dimensions namely: Tangibles (appearance of physical elements); Reliability (dependable, accurate performance); Responsiveness (promptness and helpfulness); Assurance (competence, courtesy, credibility, and security); and Empathy (easy access, good communications, and customer understanding).

***Satisfaction about LIC products***

Products are not immortal rather they are mortal. A product, which performed extremely well yesterday, may lose its charisma due to shifts in consumer tastes and increased competition (Biswasroy and Rao 2008). The insurers have to show sensitivity to the insurance needs of customers on a continuous basis.

The respondents were asked to express their level of satisfaction regarding LIC’s products on a five point rating scale ranging from poor to excellent (Table 12). 54.38 per cent of the respondents rated LIC products as ‘Good,’ followed by ‘Fair’ (19.38 per cent) and ‘Very Good’ (13.13 per cent).

**Table 12: Respondents’ Level of Satisfaction about LIC Products**

Source: Field survey

n=160 respondents

It can be observed from the table that about 72 per cent of the respondents were quite satisfied with the LIC products. Only 5.63 per cent of the respondents rated LIC products as poor. At the same time, only 17.51 per cent of the respondents rated LIC products as either very good or excellent. That means LIC has to be more

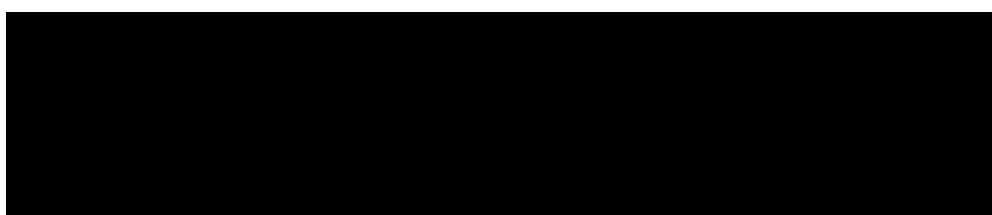
innovative and competitive in developing or modifying its product offerings in such a way so as to suit the changing needs and aspirations of the customers.

***The complaining behaviour***

It can be observed from Table13 that only nine respondents (5.63 per cent)

lodge complaints and 45.63 per cent of the respondents never made any complaint against the agent or office staff of LIC. 48.75 per cent of the respondents did not respond. Six out of nine complained against the agents, and rest against the office staff of LIC. At the time of field study no such vexed complaints were found pending in the Aizawl branch of LIC.

**Table 13: Have you ever made a Complaint against the Agent or Office Staff of LIC?**



Source: Field survey

n=160 respondents

Customer complaints give a firm the chance to correct the problems. Collecting customer feedback via complaints, suggestions, and compliments provides a means of increasing customer satisfaction (Lovelock 2003). A study (TARP, 1995), based on the handling of consumer complaints in many countries conducted by the Technical Assistant Research Programs Institute, found three reasons why dissatisfied customers do not complain. In order of frequency, customers stated: they didn't think it was worth the time or effort; they decided no one would be concerned about their problem or resolving it; they did not know where to go or what to do.

***Sharing of dissatisfaction***

In this context, an attempt is made to know how the respondents ventilate their feelings of dissatisfaction about the products and the services offered by LIC. Interestingly nearly 56 per cent of the

respondents prefer to maintain silence instead of expressing their dissatisfaction with anyone (Table 14). 16.25 per cent of the respondents normally share their displeasure with the agent. 10.63 per cent of the respondents don't hesitate to meet the branch manager to express their dissatisfaction. Other ways of expressing their dissatisfaction are: sharing with the friends and other customers (8.75 per cent), sharing with the concerned staff (6.88 per cent), and finally lodging a written complaint (1.88 per cent).

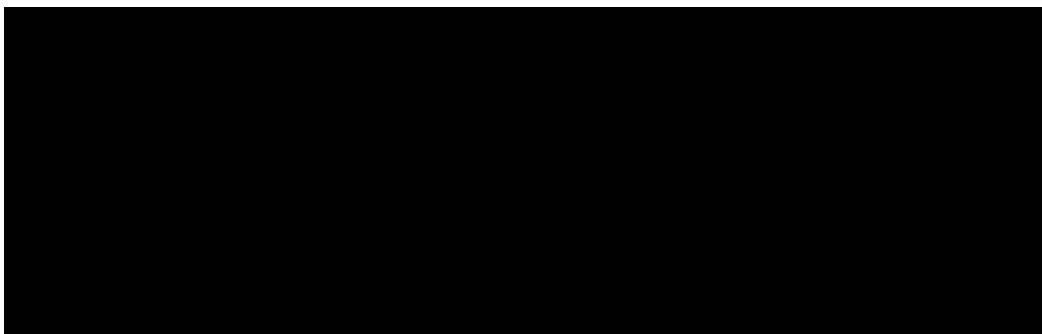
The study, conducted by the TARP (1995), found that the complaint rate among dissatisfied customers was only 40 per cent. The TARP studied consumer complaint handling in many countries. In 1986 their research findings were widely publicised, prompted many managers to consider the impact of dissatisfied customers especially those who never complained but simply defected to a

competitor. TARP found that in the USA customers experienced problems concerning manufactured consumer goods, only 25 to 30 percent of them actually complained. A German study showed that only a small fraction of customers expressed dissatisfaction, but among this group the complaint rates ranged from 29 to 81 per cent. And finally, a Japanese study found complaint rates of 17 per cent among those experiencing a problem with services and 36 per cent for

those experiencing a problem with goods (Lovelock 2003).

Therefore, the prime focus of the LIC must be on dissatisfied customers who do not share but who may defect to other insurers. 89 out of 160 (55.63 per cent) respondents do not prefer to share their dissatisfaction with anyone. It is to be noted that the respondents feel free in sharing their dissatisfaction with the agent compared to the LIC staff and the branch manager.

**Table 14: How would you Express your Dissatisfaction about LIC?**



Source: Field survey.

n=160 respondents

### Conclusion

In a service business customers have certain expectations in mind prior to consumption; they experience service performance and compare it with their expectations, and then form satisfaction judgment based on this comparison. If the service is worse than expected, the judgment is called negative disconfirmation. If the service is better than expected it would lead to positive disconfirmation (Oliver, 1996). The research evidence suggest that when there is substantial positive disconfirmation

along with pleasure and an element of surprise, then customers are likely to be delighted.

There is research evidence of strategic links between the degree of customer satisfaction and the overall performance of a firm. Fournier and Mick (1999) observed that satisfaction is an active and dynamic process that evolves over time and should not be construed only from the perspective of a single transaction. Customer satisfaction is not an end in itself, as noted by Lovelock (2003). In fact, it is the means to achieving

a number of key business goals: a. satisfaction is inextricably linked to customer loyalty and relationship commitment; b. highly satisfied customers spread positive word of mouth, thus lowering the cost of attracting new customers; c. highly satisfied customers may be more forgiving. High satisfaction acts like an insurance policy against the impact of a single failure; d. delighted customers are less susceptible to competitive offerings.

In the case of a service firm like LIC, the significance of human resource management and existence of the right customer oriented culture cannot be overemphasised. In order to continue its leadership position in the market, LIC's HR practices as well as its culture and organisational structure must fit the basic

service concept. Particularly the human skills of the frontline employees and their motivation will make the difference in terms of service quality. As evident from research studies, the employee contact skills such as attitude, courtesy, and helping nature are perceived as synonymous with quality in service. Therefore, LIC should continuously assess whether it possesses the right employee skills, motivation and customer oriented culture. This kind of customer oriented strategic thinking would enable LIC in positioning its products in a planned way so that customers get the value they are looking for, and the LIC leverages such value over the cost it incurs to create and deliver the services, leading to superior marketing and financial performance.

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