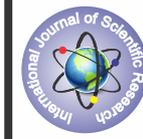


Present Status of LIC of India in comparison with the Private Life Insurance Companies in Post Liberalization Landscape An Exploratory Factor Analysis



Management

KEYWORDS: Insurance, Liberalization, IRDA JEL Classification: - G22, L51, K22

Dr. J D Chandrapal

Development Officer LIC of India - Ahmedabad

ABSTRACT

There is a substantial amount of debate regarding the emerging strategic and regulatory issues, appraisal of industry development, deregulation of industry and economic growth nexus, changing trend structure and innovation in post liberalization phase of the life insurance industry; however very few studies have examined varying aspects such as Concentration, Efficiency, Productivity and Innovation in respect of LIC of India in comparison with the Private Life Insurance Companies. The main purpose of this paper is to examine the brief overview of Status of LIC of India vs. Private Life Insurance companies in post liberalization phase by extracting factors. Using primary data of 552 respondents from various categories such as Intermediaries, Employees, and Customers across the nation; it was empirically examined to extract factors that interpret a present status of LIC of India in comparison with the private life insurance players. Exploratory Factor Analysis was applied for identifying groups or clusters of variables that relate to each other. Based on the results obtained; present status of LIC of India in comparison with the private life insurance players was mainly be explained by the two factors namely Services and Sales. The research results undoubtedly confirm the construct validity and produce more interpretable solution by reducing number of dimensions in terms of the relationship between liberalization trends and the status of LIC of India, hence providing a background for further research in this area with the description and illustration of brief and step by step overview of exploratory factor analysis (principal component analysis) by using SPSS.

1.0 Introduction

The process of economic reforms in Indian economy was started in the early 90's. Growing negative perception toward public sectors gave a rise to liberalization and paved a way for the entry of the private players. In the year 1993, Malhotra Committee, headed by former Finance Secretary and RBI Governor R.N. Malhotra, was formed to evaluate the Indian insurance industry with the objective of complementing the reforms. In the year 1994, Malhotra committee has submitted the report with the findings and some of the key recommendations. With the entry of private players in the insurance industry, life insurance business has felt a drastic change. Liberalization of the Indian life insurance industry have revolutionized the market; intense competition, rising customer expectations, aggressive marketing strategies, new knowledge, technological advancement, changing social values, recruitment and retention, transformation in marketing mix, alternative distribution channel, innovation, cost effectiveness, life expectancy etc. have characterized the market more vibrant and dynamic. It has posed some challenges to LIC of India. Competition has compelled LIC of India to come out of the wrap of the monopoly.

LIC of India lost its market share due to the expansion of the insurance market; simultaneously it has witnessed a marvelous growth and touched its historical height. Private life insurance companies with their foreign partners are also growing at a steady pace; they are continuously adding differentiation with Knowledge Transfer, Product Innovation, Competitive Pricing, advance technology, Alternative Distribution Channel and introduction of phenomenal business strategies. However LIC of India remains a market leader and contributed more powerfully in the national building activity.

Secondary data pertaining to new business indicates that LIC of India witnessed a marvelous growth in the post liberalization landscape. Present status in terms of distribution channel indicates that LIC of India has registered a remarkable growth in the development of alternative distribution channel i.e. corporate agents, banks, broker, direct sales and chief life insurance advisor (CLIA). In the pre-liberalization scenario traditional product were made popular by LIC of India would have traditional products such as endowment policies and money back policies in its product portfolio but in the post liberalization landscape LIC of India has launched innovative products such as U-LIP, health Insurance and Pension Plans to cater a rising expectation of the new generation customer and get edge over the competition. In short present status of LIC of India uncovers a new face in the competitive scenario.

2.0 Literature Review

There is a huge literature available on the change factors induced by the liberalization in respect of LIC of India Vis-à-vis Private Players. Gupta and Chuganee indicated that LIC of India is gearing to attain new heights through involvement of its entire vast workforce in order to compete with the new players (Arti Gupta and Bhakti Chuganee, 2001). Jampala and Rao observed that the very low (1.21%) contribution of new business registered through corporate agent and brokers i.e. alternate distribution channels; while they have observed nil contribution of referrals and direct business (Rajesh C Jampala and Bh Venkateswara Rao, 2007). R. Rajendran and B. Natarajan in the study pointed out that In the post LPG period LIC of India introduced many phenomenal business strategies by way of offering colourful schemes and products. (R. Rajendran and B. Natarajan, 2010). Bala et al found the negative gap that indicates unsatisfactory level of service quality of LIC of India; the results indicate maximum gap was in respect of tangibles items followed by responsiveness, assurance, empathy, and reliability items. (Bala et al, 2011). Sonika and Priti concluded that Private life insurers used the new business channels of marketing to a great extent when compared with LIC of India. (Dr. Sonika Chaudhary and Priti Kiran, 2011). Kshetrimayum investigated the assessment of deregulation with respect to Industry Scenario, Concentration, Efficiency, Productivity and Innovation in Indian life insurance industry (Kshetrimayum Sobita Devi, 2011). Sonal indicated that The private companies were taking away the market share by bringing new and innovative products to suit the needs of customers, building a strong distribution network, strong advertisement and finding new markets for their products (Sonal Purohit, 2013). Sharma and Chauhan show that the LIC continues to dominate the sector. Private sector insurance companies also tried to increase their market share. Private life insurers used the by using alternate distribution channels to a great extent when compared with LIC (Vikas Sharma and Dr. Sudhinder Singh Chowhan, 2013). Sushma observed that private sector is also capturing the market and offering challenge to the market leader LIC of India (Mrs. Sushma K. Kotgiri, 2013). Ashturkar concluded LIC has maintained higher percentage of claim settlement ratio and hence increased its market share. (Dr. P. B. Ashturkar, 2014). Bava and Chattha indicated various parameters that measure the business performance of life insurers such as Premium income growth over previous year, Market share in % and number of offices (Dr. Sumninder Kaur Bawa and Samiya Chattha, 2013). P S Chaudhari observed significant relationship between introduction of information technology by LIC of India and the entry of private players (Partha Sarathi Choudhuri, 2013). Muthukumar concluded that of the three companies, majority (76.8 per cent) of the respondents considered the distribution mix to be effective in respect of LIC of India. majority (84.9 per cent) of the respondents

considered the people and process mix to be effective in respect of Bajaj Allianz. (Dr.E.Muthukumar, 2014). Prakash and Sugumaran observed that the customers of LIC of India have affinity with the agent whereas the customers of Private Life Insurance Companies look for excellent services for being persistent (N. Prakash and Dr. G. Sugumaran, 2014). Agarwal and Shukla observed the opinion of respondents (33.94%) that LIC should improve its services (33.94%) besides increasing internet connectivity (22.59%), enhancing office efficiency (20.94%) and employing young people (19.53%) in order to retain its position and continue to be market leader in future times to come (Jyoti Agarwal and Dr. K.K.Shukla, 2014).

3.0 Literature Gap

Notably there exists a scope for the further study to evaluate present status of LIC of India by extracting factors induced as an impact of the Liberalization by way of exploratory factor analysis.

4.0 Objectives

LIC of India witnessed paradigm shift in post liberalization era. notably some change factors significantly contribute to the transformation of present status of LIC of India. The very purpose of this study is to facilitate the attempts to extract the factors in respect of present status of LIC of India.

5.0 Research Methodology

The present study is concerned with Present Status of LIC of India in comparison with the Private Life Insurance Companies; hence it would be identified as LIC_vs_PVT. It is explorative in nature and it tries to extract factors based on survey held across the country with the help of 5 point likert scale. Broader categories of 552 respondents are Agents, Employees and Customers of LIC and Private Players. Data obtained through questionnaire is tabulated and analyzed with the help of SPSS and Reliability test and Exploratory Factor Analysis was employed.

5.0.0 Data Analysis

The statistical procedures have included Descriptive statistics, Reliability analysis and Exploratory factor analysis with principal component method was conducted. Results obtained after conducting principal component analysis were read follows

5.1.0 Iterations to extract factors for the scale: LIC_vs_PVT

Three iterations were conducted with principal component analysis to extract factors for the scale: LIC_vs_PVT

The First iteration was conducted on the 15 items with orthogonal rotation (Varimax). Non-significant values (< .5) were revealed in the Communalities output for the item V104 (.419) and V105 (.496); therefore second iteration was needed to exclude item V104 from the list which indicating the lowest value.

The second iteration was conducted on the 14 items Communalities output indicated non-significant values (< .5) for the item V105 (.496); therefore third iteration was needed to exclude item V105 from the list.

After the third iteration conducted on the 13 items with orthogonal rotation (Varimax) results obtained were; Correlation Matrix output revealed that there was a high Correlation (.629) between V97 and V101; yet the low correlation was found between V92 and V97 (0.304). It also indicates that all of the 13 items were correlated and at least one item has a correlation with at least one other item that has a value greater than 0.3. The Kaiser-Meyer-Olkin measure verified the sampling adequacy for the analysis, KMO = .939 (Superb according to Field, 2009), and all KMO values for individual items were ≥ .836 (Anti Image Matrices), which is well above the acceptable limit of 0.5 (Field, 2009). Bartlett's test of sphericity $\chi^2 = 78 = 3729.701, p < .001$, indicated that correlations between items were sufficiently large for PCA. An initial analysis was run to obtain eigenvalues for each component in the data. Three components had eigenvalues over Kaiser's criterion of 1 and combination explained 60.19 Per cent of

variances. Hence the Communalities and Rotated Component Matrix output indicated significant values (> .5) for all the items; rotated component matrix revealed its factor structure. In the factor structure each item has value greater than 0.5; Therefore there was no need for the application of further iterations to exclude any item from the list. Thus the two factors were retained for the final analysis of the scale LIC_vs_PVT.

Finally two factors were extracted after successful 3 iterations on the scale: LIC_vs_PVT (Table-5.1), they were interpreted for labeling with appropriate name; hence factor 1 and 2 labelled with the name **Services** and **Sales** respectively. Thus data was reduced and construct validity was proved. Summarized results were revealed in the Table – 5.1

Table – 5.1 Summary of EFA Result (SPSS) for LIC_vs_PVT (N=552)

		Component	
		Services	Sales
V101	Quality of Post Sales Services	.867	
V96	Completion speed of the proposal	.732	
V99	Premium Rates	.708	
V97	Periodic reminders	.674	
V103	IT Infrastructure and Technology	.633	
V94	Alternative Distribution Channel	.627	
V106	Reliability and trustworthiness	.624	
V102	Visually Appealing Physical Facilities	.582	
V98	Simplified and Standardized Processes	.561	
V92	Quality of sales personnel		.842
V100	Premium payment facility		.650
V95	Innovative Products		.616
V93	Location of Branches		.600
Eigenvalues (Extraction Sums of Squared		6.632	1.193
% of Variance (Rotation Sums of Squared		34.865	25.326
α (Cronbach's alpha)		.904	.743
Extraction Method: Principal Component Analysis. - Rotation			
a. Rotation converged in 2 iterations.			

5.2.0 Determining Reliability of the Scale in respect of the scale

Table – 5.2 Reliability Statistics in respect of Services and Sales (LIC_vs_PVT)

Variable	No. of Statements	Cronbach's alpha
Services	9	0.904
Sales	4	0.743

Table - 5.2 reveals Cronbach's coefficient in respect of Services and Sales

5.3.0 Examining Correlation between the linear combinations LIC_vs_PVT

Table – 5.3 Pearson Correlations between the DVs of Scale

	Services	Sales
Services	1	.674**
Sales	.674**	1

** . Correlation is significant (.000) at the 0.01 level (2-tailed).
N = 552

Table – 5.3 reveals the positive inter correlation between the Services and Sales

6.0.0 Interpretation of Results and Discussion

Reliability score show for Services (α = .904, Excellent) and Sales (α = .743, Acceptable); they were found reliable with excellent internal

consistency.

Results of Exploratory factor analysis reveal that two factors were composed of the variables by their attribution; hence labelled with the name.

1. The first factor was composed of 9 variables and contributes 34.865 % of variance. It seems to represent the general worry about service quality of the LIC of India vs Private Players; hence it was labelled with the name “Services”.

2. The Second factor was composed of 4 variables and contributes 25.326 % of variances. It seems to represent the general worry about sales of the LIC of India vs Private Players; hence it was labelled with the name “Sales”.

Table – 5.3 reveals the positive inter Correlation with Pearson correlation coefficient of r between the linear combinations of the Scale: LIC_vs_PVT; there was significant correlation between Services and Sales; $r(549) = .67, p < .001$.

Services and Sales were correlated $r(549) = .68, p < .001$ (Table – 5.26); with Pearson correlation coefficient of $r = .68$ and significance value $< .001$. Based on the Mayer's (2013) suggestion; Correlation was within acceptable limits and reasonably correlated with each other. Based on Field's (2005) suggestion; results reveal the large size of observed effect. Positive correlation between linear combination of the scale was observed.

8.0 Scope for the further Research

This research is purely exploratory in nature and it can be examined two or more parametric dependent variables across one or more between group with MANOVA. For example there may be variance in perception regarding Present Status of LIC of India in comparison with the Private Life Insurance Companies in terms of Efficiency and Productivity among the people associate with insurance industry such as Intermediaries, Employees and Customers. Further the present status of LIC of India can be compared with any of private insurers in terms of Marketing Mix and Insurance Awareness. So definitely there is a scope for further research exists to enrich a body of knowledge.

8.1 Conclusion

Indian life insurance industry felt 360 degree transition With the entry of private players in the insurance industry; liberalization of the Indian life insurance industry has revolutionized the market. It has posed some challenges to LIC of India. Competition has compelled LIC of India to come out of the wrap of the monopoly. Some change factors have been induced by the liberalization and deregulation of Indian insurance industry that uncovers the new face of the LIC of India in the present scenario.

Using data of 552 respondents from various categories such as Intermediaries, Employees, and Customers; by way of exploratory factor analysis by using SPSS; two factors have been extracted, namely Service and Sales, these factors explains most the Present Status of LIC of India in comparison with the Private Life Insurance Companies.

References

1. Andy Field. (2006, February 15). Reliability Analysis. Retrieved October 18, 2013, from <http://www.statisticshell.com/docs/>
<http://www.statisticshell.com/docs/reliability.pdf>
2. Arti Gupta and Bhakti Chuganee. (2001, June - July). LIC learns to Tango. Insurance Chronicle.
3. Bala et al, M. N. (2011). Measuring Life Insurance Service Quality: An Empirical Assessment of SERVQUAL Instrument. *International Business Research*, 4 (4), 176 - 190.
4. Brett Williams-Andrys Onsmann-Ted Brown. (2012). Exploratory factor analysis: A five-step guide for novices. Retrieved December 5, 2013, from <http://ro.ecu.edu.au/cgi/viewcontent.cgi?article=1373&context=jephe>
5. Darren George - Paul Mallery. (2011). SPSS for Windows Step by Step: A Simple Guide and Reference 18.0 Update. Boston: Allyn & Bacon/Pearson.
6. Dr. P. B. Ashturkar. (2014). *International Journal of Advance Research in Computer Science and Management Studies*, 2(11), 148 - 155.

7. Dr. Sonika Chaudhary and Priti Kiran. (2011). Life Insurance Industry in India - Current Scenario. *International Journal of Management & Business studies*, 1 (3), 146 - 150.
8. Dr. Sumninder Kaur Bawa and Samiya Chattha. (2013). Financial Performance of Life Insurers in Indian Insurance Industry. *Pacific Business Review International*, 6 (5), 44 - 52.
9. Dr.E.Muthukumar, D. R. (2014). Scholars World - International Refereed Multidisciplinary Journal of Contemporary Research. SCHOLARS WORLD-IRMJCR Online: ISSN 2320-3145, Print: ISSN 2319-5789 www.scholarsworld.net editor@scholarsworld.net Volume. II, Issue I, January 2014 [46], 2 (1), 38 - 47.
10. Gebotys, D. R. (2003). <https://www.wlu.ca/documents/>. Retrieved October 5, 2013, from <https://www.wlu.ca:https://www.wlu.ca/documents/45758/reliability.pdf>
11. Jeromy Anglim. (2007). Cluster Analysis & Factor Analysis - 325-711 *Research Methods*. Retrieved December 11, 2013, from <http://jeromyanglim.googlepages.com/>
<http://jeromyanglim.googlepages.com/ResearchMethods/325-711>
12. Joseph A. Gliem - Rosemary R. Gliem. (2003, October 8). Calculating, Interpreting, and Reporting Cronbach's Alpha Reliability Coefficient for Likert-Type Scales. Retrieved November 21, 2013, from <http://www.ssnpstudents.com/wp-content/uploads/2015/02/Gliem-Gliem.pdf>
13. Jyoti Agarwal and Dr. K.K.Shukla. (2014). Awareness and Impact of Globalization of Life Insurance in India. *International Journal of Application or Innovation in Engineering & Management (IJAEM)*, 3 (10), 1 - 8.
14. Kshetrimayum Sobita Devi. (2011). Study of Impact of liberalization on indian life insurance industry. Vadodara: Department of Economics - The Maharaja Sayajirao University.
15. Mrs. Sushma K. Kotgiri. (2013). Growth of life Insurance Business: Public and Private Insurance Players in India. *Indian Journal of Research in Management, Business and Social Sciences (IJRMBS)*, 1 (1), 62 - 66.
16. N. Prakash and Dr. G. Sugumaran. (2014). Service Quality Dimension Comparison Between Public and Private Life Insurance Companies. *Madras University Journal of Business and Finance*, 2 (1), 63 - 68.
17. Partha Sarathi Choudhuri. (2013). Introduction Of Information Technology In Life Insurance Corporation Of India Vis-À-Vis Entry Of Private Insurers In Indian Life Insurance Market. *SIT Journal of Management*, 3, 64 - 74.
18. Paul Kline. (2000). *Handbook of Psychological Testing*. New York: Routledge - Taylor & Francis Group.
19. R. Rajendran and B. Natarajan. (2010). The Impact of LPG on Life Corporation of India. *African Journal of Business Management*, 4 (8), 1457 - 1463.
20. Rajesh C Jampala and Bh Venkateswara Rao. (2007). Distribution Channels of LIC Are They Effective? *Insurance Chronicle*, 72 - 75.
21. Sonal Purohit. (2013). Changes in the Marketing of LIC by Impact of Private Insurance Players. *International Journal of Marketing, Financial Services & Management Research*, 2 (7), 95 - 101.
22. Vikas Sharma and Dr. Sudhinder Singh Chowhan. (2013). A Comparative Study of Public & Private Life Insurance. *Indian Journal of Applied Research*, 3 (1), 93 - 95.