IJCRT.ORG ISSN : 2320-2882

INTERNATIONAL JOURNAL OF CREATIVE RESEARCH THOUGHTS (IJCRT)

An International Open Access, Peer-reviewed, Refereed Journal

SUSTAINABLITY OF LIFE INSURANCE INDUSTRY

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Abstract: Entry of new firms in life insurance industry has increased competition over the last few years. It is due to increased innovations among the new entrants. If the life insurance companies want to maintain their position in this competitive market, then developing a competitive advantage alone is not enough, rather its sustainability is the critical element. Today, companies should create attractive offers as compared to their competitors and only then they will be able to create the sustainable relations with the customers. Therefore, there is need that management should devote more time by using critical thinking on this issue.

Competitive advantage is the attribute that allows an organization to outperform its competitors. It is a value adding strategy that is not being implemented by potential competitors and can hardly be duplicated by competitors. Efforts to duplicate competitive advantage need to have been rendered futile. An organisation is said to have competitive advantage if its profitability is higher than the average profitability for all companies in its industry.

The aim of this paper is to analyse how a company can create competitive advantage to capture the more market that will ultimately help to create sustainable competitive advantage. The study uses largely of a secondary data that is descriptive in nature. It is concluded that in order to maintain sustainability in the market, the industry should explore new opportunities in the new market

Index terms: Competitive Advantage

I. Introduction

There has been an intense debate over the idea of sustainability. It is an expansive issue including a wide range of concerns that are economic environmental and social in nature. Sustainability can be defined as “to meet the current needs without destroying the ability of future generations to meet theirs”. The idea was proposed in 1987 by United Nations world commission of environment and development popularly called the Brundtland Commission and published in the book Our Common Future.

Sustainability is the responsibility of everyone including the organisations involved in business. So, corporate sustainability implies the challenge to simultaneously improve social and human welfare while reducing the ecological impact of organisations and ensuring the effective achievement of organisational goals.

Sustainability rest on the long term sustainability where organisations aim at optimising profit in such a way that they do not cause harm to the natural environment and leave it in a shape that would continue to be useful to the coming generations. Current thought, however, does not limit to the organisational objectives solely to short term profitability that depends on simultaneously on achievement of market sustainability as well as environmental sustainability.

Competitive advantage

In order to understand the competitive positioning, we could visualise a situation in which a firm has to compete in a market with other rival firms. One type of positioning approach may be of offering mass produced products distributed through mass marketing, thereby resulting in lower cost per unit. The other type of positioning approach could be marketing relatively higher priced products of limited variety but intensely focused on identified customer groups who are willing to pay the higher price. These are produced through batch production and marketed through specialised distribution channels what the firm does is to offer its products or services differentiating them from their rivals on some tangible basis.

These two approaches are termed as the two generic types of competitive advantage that an organisation could plan for; the lower cost approach According to Porter, lower cost is based on the competence of an organisation to design, produce and market a comparable product more efficiently than its competitors. Differentiation is the competence of the firm to produce unique and superior value to the buyer in terms of product quality, special features and after sale service.

Aim of the paper

A company can create competitive advantage that will help the organisation to capture the more market. Therefore, this study will seek to determine challenges faced by life insurance companies in implementation of marketing strategy. It will be guided by the following questions:

- Which other tangible resources will be able to create sustainable competitive advantage?
- What challenges face the insurance company in implementing the marketing strategy?
- What action if any should life insurance company take to successfully implement marketing strategy?

Population of the study

The population of the study comprised of all life insurance companies in India .There are 24 life insurance companies out of them one is public and twenty three are private.

Data collection

The main source of data collection is secondary. Secondary data was collected from annual reports of life insurance companies, IRDA annual reports of life insurance companies, websites and publications.

Sources of competitive advantage

Competitiveness of an organization has become the source of success in the market. A firm's internal environment is value adding strategies in the value chain and resource capabilities account for its core competencies. A well designed strategy can help a firm to gain a competitive advantage. This advantage can arise from the following resources;

Differentiation

Differentiation strategy enables a firm to provide goods and services that competitors are not offering yet or are not able to copy. Uniqueness in brand, technology and product is also the key aspect. The competitive advantage of an organization lies in special features incorporated into the product or service which is demanded by the customers who are willing to pay for it. A differentiated organization can charge a premium price for its services and gain additional customers who value the differentiation and command loyalty. To the extent the organization is able to offer differentiate by maintaining a balance between its price and cost, it succeeds but it may fail if the customers, no longer, are interested in differentiated features or are not willing to pay extra for such features. e.g. life, health and personal accident insurance can be bundled together. The life insurance companies provide only packaged policies whereas new players have been providing several riders. Riders in insurance parlance are an option that gives the policyholders additional coverage, without disturbing the fundamental risk coverage. This service in the field of life insurance has improved greatly with the entry of multinationals and rising competition the customer should have the option to continue or to switch Ones or to come out of the given policy. The service in the field of life insurance has improved greatly with the entry of multinationals and rising competition.

Consumer Behaviour Trends

Traditionally insurance companies have relied on person to person interaction and the ability their trained personal to sell products but over the years, customers have become more self-reliant and like to do their own research before talking to an agent. They prefer to visit the websites, where they can scan through available product information and make the decision themselves.

Most companies have access to a huge amount of information. However, intelligence of the data is critical to success and not just volume.

Low cost strategy

The insurance Act 1938, prescribes a ceiling on management expenses which include administration expenses such as commissions fund management fees, custodial fees and expenses on marketing and advertising. The percentage varies from insurer to insurer and primarily depends on the new business premium garnered in a year and in the age of the company According to the recent amendment this rule is applicable to only those companies that have been in operations for is set to protect the long term interest of policy holders and ensure that reckless expenditure by insurance as might not hurt their profitability and long term sustainability. Organizational capabilities factors are the strategic strengths and weakness existing in different functional areas within organization which are of cervical importance to strategy formulation and implementation.

This strategy is based on cost leadership with efficiency and tight cost control. Low operational cost can be achieved through exploiting other means of product promotion like social media having a flat organization structure, superior information system and effective use of capital. With quality customer service, existing customers become loyal to the organization and spread the good news by word of mouth. By doing so, more customers are attracted to a firm without any advertisement cost. In this way, a lot is saved as no promotion costs are incurred.

Information Technology

Private Insurance companies have discovered that the Internet is a powerful tool for reaching potential and existing customers. Most carriers use the Internet simply to post company information, such as sales brochures and product information, financial statements, and a list of local agents. New technology gives the policyholders / insured better, wider and faster access to products and services. The impact of Information Technology in Insurance business is being felt at an accelerating pace Internet has provided brand new distribution channels to the Insurers. Technology has enabled the Insurer to innovate new products, provide better customer service and deeper and wider insurance coverage to them. Insurance companies should give customers a distinct claim id to track claims on-line.

Capabilities

To separate themselves from competition some insurance as have responded by changing the game. They develop their core processes to extend their capabilities. They provide customers with instant online and comparative quotes. A web based documentation and faster claims processing are building products according to the customer's needs. The key to bringing in more business, improving the service to the business you already have and improving your core capabilities, is to bring people, departments and systems together that were previously disconnected. Insurance cost need to help providers underwriters and agent share information to better serve customers. Products must be flexible and interchangeable. The process necessary to deliver must be integrated and the technologies that support must support the fell flow of information.

Positive Reputation

Corporate refutation has a significantly positive impact on profitability because it helps to bring in a new business and premiums for investment. Moreover sustained reputation may increase profitability overtime because reputation built previously can keep an insurer in a favorable position in future market competition so life insurers can improve their profitability through promoting corporate reputation. Which highly relies on the service quality of underwriting IRDA and insurance companies set important standards for the proper conduct of agents some are discussed as under:-

→ Commitment to fulfill and service the needs of clients and their beneficiates.

→ An accurate and honest explanation of all the facts essential to making a decision.

→ An effort to continuously increase knowledge through continuing education.

→ It is an agent's professional responsibility to clearly explain the life.

Life insurance products recommended including the full and fair disclose of all product provisions both benefits and restrictions. Insurance companies should take the complaints of customers seriously. These should be handled properly and efficiently.

Learning organization

Organization has diverse members in their knowledge and learning practice. However in the practice of learning organization theory the members of the organization continue to their efforts to improve the capacity and their ability to learn with goals to produce the desired result and new ways of thinking which fostered to make them go together and continually learning to see the whole together.

Insurance companies are realizing that efficiently managing its customer, employee knowledge and utilizing the same in designing insurance products and services is a key to survival

Strategic planning and sustained competitive advantage

Strategic planning is very important as strategic planning deals with use of its strengths officially take their threats in a rational manner. Strategic advantages are the outcomes of organizational capabilities. They are the results of organizational activities leading to reward in terms of financial parameters such as market share or reputation. On the other hand form of financial loss or damage to market share. So profitability could better is the strategic advantage. They are comparable in terms of historical performance of an organization over a period of time as its current performance with respect to its competitors in the industry.

Competitive advantage is a special case of strategic advantage where there is one or more identified rivals against whom the rewards or penalties could be measured. So outperforming rivals in profitability or market standing could be a competitive advantage for an organization

Human Resource as a firm's Resources

Competitive advantage of a company can be generated from human resources and company performance is influenced by a set of effective HRM practice.

The traditional ways of gaining competitive advantage have to be supplemented with organizational capability i.e. the firm's ability to manage people. Organizational capability relates to hiring and retaining competent employees and developing competencies through effective human resource management practices. Indeed developing a talented workforce is essential to sustainable competitive advantage.

In today's growth fierce market competition, HR's day to day role is become more challenging and strategic. Issues and challenges can range from retaining talented employees attracting new talent, prepare employees to accept challenges, facilitate healthy work culture for employees and better performance.

With the constant internal and external pressures, HR of insurance industry need to constantly respond to such changes and need to build suitable model and strategies to cope up for effective management. Internal pressures may include infrastructure, work for planning and management cost management globalization of workforce etc. External pressures can be changes in govt. regulations changes in market conditions changing employees and customer's demographics.

There challenges check their ability to adapt to changing business environment, improve work efficiency and capitalize on growth in the sector. HR needs to analyse innovate and reconstruct existing policies in order to keep up with the frequent changes.

Findings and suggestions of the study

One of the greatest challenges in any competitive market revolves around the ability of an organization to adapt to a changing environment .the insurance industry is no exception. The introduction of private players in the industry has added colours to the dull industry. The initiatives taken by the private players are very competitive and have given immense competition to the on time monopoly of the market LIC. Since the advent of the private players in the market the industry has seen new and innovative steps taken by the players in the sector. The new players have improved the service quality of the insurance. As a result LIC down the years have seen the declining in its career. The market share was distributed among the private players. As only 30% of the total population is insured, so there are more chances for the growth of industry as well as growth of the economy. So business or domestic firms will attempt to invest in insurance sector. Moreover, growth of insurance business in India is 13 times the growth insurance in developed countries. So it is natural, that foreign companies would be interested to invest something in Indian insurance business

Findings

Private players have started their business. Some of these players have been able to float only few products and some have floated large number of products. At present, these companies are not creating a big challenge to LIC , but if we see the quality and standards of the products which they issued, they can certainly be a challenge in future.

1. The great public insurer, LIC have created a large number of dissatisfied customers due to the poor quality of service. Hence there will be shift of large number of customers from LIC to the private insurers.
2. LIC may face problem of surrender of a large number of policies, as new insurers will woo them by offer of innovative products at lower prices from the private players.
3. The corporate clients under group schemes and salary savings schemes may shift their loyalty from LIC to the private insurance players due to poor service and less innovative products.
4. Presence of young dynamic managers in private companies as compared to LIC, as they will get higher package of remuneration.
5. LIC has overstaffing and with the introduction of full computerization, a large number of the employees will be surplus. However they cannot be retrenched. Hence the operating costs of LIC will not be reduced. This will be a disadvantage in the competitive market, as the new insurers will operate with lean office and

high technology to reduce the operating costs.– Management of claims will put strain on the financial resources,

6. LIC has long list of products and, which are outdated in the present context as they are not suitable to the changing needs of the customers. Not only that they are not competent enough to compete with the new products offered by foreign companies in the market.
7. Reaching the consumer expectations on par with foreign companies such as better yield and much improved quality of service particularly in the area of settlement of claims, issue of new policies, transfer of the policies and revival of policies in the liberalized market is very difficult for insurance industry.
8. Multi distribution channels of new insurance companies have also increased competition.
9. The market very soon will be flooded by a large number of products by fairly large number of insurers operating in the Indian market. the consumers will be confused in the market. Their confusion will further increase in the face for large number of products in the market. The existing level of awareness of the consumers for insurance products is very low.
10. The insurers will have to face an acute problem of the redressal of the consumers, grievances for deficiency in products and services. Increasing awareness will bring number of legal cases filled by the consumers against insurers is likely to increase substantially in future.
11. Like all developing economies on a fast track, the shortage of trained insurance professionals and technicians at all levels

Suggestions

Indian insurance industry needs to take the following steps to meet the global challenges:

1. Understanding the customer better will enable insurance companies to design appropriate products, determine price correctly and increase profitability.
2. Selection of right type of distribution channel mix is the need of the hour.
3. An efficient CRM system, which would eventually create sustainable competitive advantages and build a long-lasting relationship
4. Insurers must follow best investment practices and must have a strong asset management company to maximize returns.
5. Insurers should increase the customer base in semi urban and rural areas, which offer a huge potential.

CONCLUSION

It can be concluded that the entry of private players entry is justifiable on the basis of enhancing the efficiency of operation, achieving greater density and insurance coverage in the country and for greater mobilization of long-term savings for long gestation infrastructure projects. In the wake of such competition it is essential for the government monopolies like LIC that they quickly upgrade their technology, restructure themselves on more efficient lines and operate as broad run enterprise. New players should not be treated as rivalries to government companies, but they can supplement in achieving the objective of growth of insurance business in India.

In the global era, Insurance companies are increasingly willing to spend more on the customer satisfaction and brand building exercises. Though, it is one of the highly regulated industries, it still provides lot of scope for creativity and innovations. As this industry is predominantly dominated by personal selling and personalized services, in order to achieve the competitive edge over others, it is necessary to standardize the process and bring about quality improvement and get feedback from the customers regarding the quality of services rendered. This will result in customer satisfaction, customer retention, customer acquisition, employee retention and cost reduction. Servicing focuses on enhancing the customer's experience and maximizing his convenience. This calls for effective Customer Relationship Management system, which eventually creates sustainable competitive advantage and enables to build long lasting relationship.

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