

# A Study on CRM Practices for Public sector Insurance Companies

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**Abstract** Organizations pursue a CRM strategy for the purpose of increasing business performance and value. However, firms face a multitude of organizational challenges associated with this endeavor. To reduce their risk of failure, it is suggested that firms undertake a deep analysis of organizational readiness prior to committing to a CRM initiative. Insurance sector is no exception to this fact. There is an increased need to concentrate on the various challenges thrown open by the public insurance firms in implementing CRM. Many insurance firms have invested into customer driven CRM but research indicates varying outcomes (Schmith 2004). While it is clear that there are significant issues involved in the CRM implementation and success and environment faced by the public sector. It is clear that business should have an easier time in applying CRM systems is the strategic value for public sector. With customers demanding more service and accessibility from administrators, public sector CRM software technologies have to offer best solutions for achieving process and cost objectives (Souder 2001). With results which go far beyond improved service delivery and include sustained cost reductions, increased customer knowledge and better employee morale, CRM software implementation and post product environments offer great upside value. Although there are material differences in public sector use of CRM strategy, they share at least one glaring similarity – they have much to gain from proven CRM software technology. As business methods cross over in the public sector, many government bodies are investigating how they can adopt and adapt various CRM models (Bleyer 2003). There is a need to understand the similarities and differences in public sector CRM to foster shared knowledge, business processes and planning functions to integrate disparate technologies and software platforms and then, of course, the organizational culture to support knowledge sharing (Peters 1997). For the

public sector, there are clearly identified CRM processes which have resulted in increased profits and improved efficiency. These have focused on sales, marketing and customer service activities, which often operate along fundamentally different lines in various public sector insurance companies. Thus the present research paper makes an attempt to explore how public sector CRM methods can be adopted and subsequently adapted.

**Keywords** Customer Relationship Management • CRM • Public Insurance Companies

## Introduction

The rapid development of information technology enables insurance businesses to promptly assimilate customer information, understand their needs and create values for them. Through the improvement of the operation process, channel integration, enhancement of employees' capability, prompt and flexible responses, customer segmentation, value analysis and customized service, customer relationship management maintains the current customers, attracts the potential customers and enhances customer value. The concept of Customer Relationship Management (CRM) resonates with managers in today's competitive economy. Yet recent articles in the business press have described CRM implementation failures in insurance sector, and consequent company reluctance to invest in CRM. The potential for substantially improved CRM, coupled with the high uncertainty surrounding failed implementation efforts, calls for a critical new look at the determinants of, and influences upon, an insurance firm's decision to adopt CRM. In such a scenario it was thought appropriate to review the extant literature on the subject and identify variables of interest from the CRM perspective so as to map the existing trends in the public sector insurance firms.

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## Review of Literature

Several scholars studying buyer-seller relationships have enriched the literature with relevant CRM concepts and constructs (Gundlach and Cadotte 1974; Doney and Cannon 1997; Kumar and Jha 2002; Smith 2004). A compelling business case and success stories continue to attract business interest and investment in CRM. These works focused on the adoption phase (Rapp and Collins 1991) of a technology based innovation in CRM where decision-making and planning activities are conducted to address “whether, why, and how” to implement the innovation in CRM initiatives (Merlin 2001). Although decisions made during this phase are critical to the eventual success or failure of a CRM initiative, there is a paucity of research exploring these adoption issues (Markus and Tanis 2000).

Wilson (1995) classified CRM research directions into concept level, model level and process research. Several scholars have enriched this literature through model level research (Liljander and Strandvik 1996; Smith 1997; Donney 2000), concept level research (Anderson and Hakanson 1994; Berson 1996; Light 1998; Han 2000) and process level research (Anderson and Narus 2002; Schurr and Oh 2003). Several studies have been conducted on the impact of CRM programmes on the performance of banks, hospitals and insurance sector (Aulakh and Kotabe 1997; Nevin 1998; Souder 2001; Zahay 2004).

Previous researchers have addressed the intellectual alignment (strategy, structure, goal and principles), social alignment (culture, customer interaction and domain knowledge) and technology alignment (IT capability and Knowledge Management) of CRM implementation (Mulligan 1990; Payne 1994; Reich and Benbasat 2000; Battista 2000). This body of research generally finds that these CRM alignments “enable a firm to maximize its IT investments and achieve harmony with its business strategies and plans, leading to greater profitability”.

Several authors have established that by looking at the relationship development process, one could identify which CRM constructs would actively impact the outcome considerations and which of them would have latent influence and this will help in establishing a comparison of CRM parameters (McKie 1992; Simonian and Ruth 1996; Sodano 1996; Wilson 2006) and insurance sector is no exception.

The review of literature ranges from 1972 to 2006 and includes around 245 references. It was the pioneering work of Rudi (2003), Hewson (2003), Crook (2002), Schmitt (2006) and Schellong (2005) that provided the much needed impetus in the process of understanding and formulating the sector wise CRM comparison parameters.

## Research Methodology

This section focuses on the research hypotheses, research design and the procedure adopted for conducting the study. Specifically it focuses on the instrument development including pilot testing, data collection and data analysis procedures.

### Research Hypotheses

For achieving the objectives of the study, hypotheses were framed. The rationale for each of these hypotheses stems from the review of extant literature on the subject, from theories and reasoning. The hypotheses considered for the study are listed below:

Category I: Developing a valid and reliable instrument for exploring variables of interest vis-à-vis CRM practices in the context of public sector insurance industry.

H1: The scales developed for the study are valid and reliable.

### Scale Refinement and Validation

There is a necessity to develop valid and reliable measures as this would enable proper framework for establishing dimensions under study. Unless reliability and validity are established, it is hard to standardize the measurement scales, without which it is difficult to know whether the scales actually measure what they are, suppose to measure. In present research data was collected through a field survey and then the collected data was factor analyzed in order to unearth the latent factors based on factor loadings. Then the instrument was subjected to tests of reliability and validity, thereby ensuring standardization. The technique used in this research is Exploratory Factor Analysis. To develop valid and reliable scale separate scales were formed for public and private sector.

EFA was performed on each scale separately to check as to whether all items load on a single construct. To determine if the data are likely to factor well, before proceeding with EFA, Kaiser-Meyer-Olkin (KMO) Measure of Sampling Adequacy and Bartlett's Tests of Sphericity were performed. KMO measure quantifies the degree of inter-correlations among the variables and hence the appropriateness of factor analysis. If KMO is found to be greater than 0.50, then one can proceed with factor analysis (Malhotra 2005). The KMO values of all the scales were found to be meritorious signaling that data was suitable

for factor analysis.

Another measure is Bartlett's Test of Sphericity which measures the presence of correlations among the variables. It provides the statistical probability that the correlation matrix has significant correlations among at least some of variables. Thus, a significant Bartlett's Test of Sphericity is required (Malhotra 2005). Because  $p = 0.000$  (its associated probability is less than 0.05) for all scales, we could proceed with factor analysis.

Since there were one hundred and thirty-six items present in the data set, principal components analysis conducted to reduce the number of questions. With PCA, the 136 items were reduced to 48 items under broad head of 9 Factors such as CRM goals, CRM principles, technology consideration, technology implementation effects, customer satisfaction, customer communication, CRM benefits, before and after CRM implementation and value proposition. The table below gives the refined scale after factor analysis.

## Discussion

### Analysis of Factors

After the factor analysis was completed, the nine factors were named based on the major characteristics of the measured variables.

**CRM goals:** The first factor for the public sector has an Eigen value = 1.22 since this is greater than 1.0, it explains more variance than a single variable, in fact 1.22 times as much. The cumulative percentage of variance is 4.98% which implies that the factors extracted account for 4.98% of total variance.

**CRM principles:** The second factor has an Eigen value = 1.11 for public sector. It is also greater than 1.0 and therefore explains more variance than a single variable. The cumulative percentage of variance is 15.89 % which implies that that the factors extracted account for 15.89 % of total variance.

**CRM technology considerations:** The third factor has Eigen value = 1.16 for public sector. Like the above two factors it is also greater than 1.0 and explains more variance than a single variable. The cumulative percentage of variance is 8.24 % which implies that that the factors extracted account for 58.03 % of total variance.

**CRM technology implementation effects:** The fourth factor for the public sector has an Eigen value = 1.21 since this is greater than 1.0, it explains more variance than a single variable, in fact 1.21 times as much. The cumulative percentage of variance is 4.98% which implies that the factors extracted account for 6.37% of total variance.

**Customer satisfaction:** The fifth factor for the public sector has an Eigen value = 1.25 since this is greater than 1.0, it explains more variance than a single variable, in fact 1.25 times as much. The cumulative percentage of variance is 4.03% which implies that the factors extracted account for 4.03% of total variance.

**Customer communication:** The sixth factor for the public sector has an Eigen value = 1.07 since this is greater than 1.0, it explains more variance than a single variable, in fact 1.07 times as much. The cumulative percentage of variance is 21.44% which implies that the factors extracted account for 21.44% of total variance.

**CRM benefits:** The seventh factor for the public sector has an Eigen value = 1.12 since this is greater than 1.0, it explains more variance than a single variable, in fact 1.12 times as much. The cumulative percentage of variance is 11.13% which implies that the factors extracted account for 11.13% of total variance.

**Before and after CRM implementation:** The eighth factor for the public sector has an Eigen value = 1.19 since this is greater than 1.0, it explains more variance than a single variable, in fact 1.19 times as much. The cumulative percentage of variance is 25.10% which implies that the factors extracted account for 25.10% of total variance.

**Value proposition:** The ninth factor for the public sector has an Eigen value = 1.11 since this is greater than 1.0, it explains more variance than a single variable, in fact 1.11 times as much. The cumulative percentage of variance is 9.19% which implies that the factors extracted account for 4.98% of total variance.

### Interpretation of Factors

After extracting the Eigen Values rotation of principal components is done through varimax rotation. After the number of extracted factors is decided upon, the next task is to interpret the name of the factors as shown below. This is done by the process of identifying which factors are associated with which of the original variables. Factor Analysis was used to summarize the nine CRM comparison constructs into smaller sets of linear composites that preserved most of the information in the original data set. Factor one had all the statements dealing with CRM goals. Factor two had all the statements related to CRM principles. The statements which load into factor three are all concerned with CRM technology. Factor four had all statements related to CRM technology implementation. This and previous factor gives an idea regarding CRM technology concerns for insurance sector. The statements which load into factor five are all concerned with customer satisfaction parameters. This factor and sixth factor named as customer communication describes the customer perspective of CRM initiatives

for the Insurance sector. Factor seven had all statements related to CRM benefits. This factor and the eighth factor, before and after CRM implementation effects describes the actual CRM effective contributions offered to Insurance

sector. The factor nine had statements related to value proposition. All these factor solutions best described the data.

**Table 1** CRM Goal: Items Retained after Scale Refinement through EFA for Public Insurance Companies

Item	Statements	Public
1	Fully integrate sales and marketing with customer service, supply chain, online and accounting	X
2	Audit and map the touch points and processes that affect customers	X
3	Quantify and prioritize these processes according to their impact on strategic CRM	
4	Prioritize processes based on their importance to customers and their impact on the Enterprise's strategic CRM objectives	X
5	Identify the key processes from the customer's perspective	X
6	Improve Customer Satisfaction	X
7	Increase Profits	X
8	Customer Service and support	
9	Building attractive Virtual Community	
10	Incorporate consistent & integrated customer view across channels	X
11	Implement effective sales & complaint management system	X
12	Incorporate excellent analytics	X
13	Manage campaigns	
14	Increased agency staff efficiency	
15	Increased Customer Service	
16	Extending services beyond core Business	X
17	Channel for others to market their products	
18	Identify price-elasticity of demand by segments	X
19	Unearth end-user served and un-served markets	
20	Reduced Technology cost	
21	Technology Balance	X
22	Data and System Support	
23	Organization readiness	
24	Customized Content & Communication	
25	Customized Product Offers	
	Total Items Retained	12

**Note:** Items retained are denoted with 'X'

**Table 2** CRM Principle: Items Retained after Scale Refinement through EFA for Public Insurance Companies

Item	Statements	Public
1	Capture customer data from across the enterprise	X
2	Consolidating acquired customer-related data in a central database and analyses	X
3	Distribute the results to various customer touch points	
4	Use processed data at touch points	X
5	CRM must adapt to evolving business priorities	
6	CRM delivers measurable business benefits	
7	Consider price and total cost of ownership carefully	
	Total Items Retained	3

**Note:** Items retained are denoted with 'X'

**Table 3** CRM Technology Considerations: Items Retained after Scale Refinement through EFA for Public Insurance Companies

Item	Statements	Public
1	Adapt to new levels of usage	X
2	Functionality	
3	Reliability	
4	Different client's platform	X
5	Version Upgrades	
6	Integration Options	X
7	Data Integrity	
8	Violation of Confidentiality	X
9	Accessibility	
10	Information Risks	X
11	Privacy	
12	Shifting Cost	
13	Initial Cost	X
14	Implementation Cost	X
15	Security/Legal	
16	Accessibility	
17	Audit Trails	
18	Changing Regulations	
	Total Items Retained	7

**Note:** Items retained are denoted with 'X'

**Table 4** CRM Technology Implementation Effects: Items Retained after Scale Refinement through EFA for Public Insurance Companies

Item	Statements	Public
1	Integration of Customer Information across agencies	X
2	Provision for future Conversions	
3	Attract right skilled work force	X
4	Difficulty in measuring success with goals	
5	Choosing and working with external vendors	
6	Customization	X
7	Inexperienced Consultants	
8	Integration	X
9	Lack of executive sponsorship and leadership	
10	Software and/or consulting vendor over promised	X
11	Integrator cost out of control	
12	Unstable or buggy software	
13	Integrator doesn't understand client's business	
14	Software lacks key functionality	X
15	Integrator staff lacks key skills or experience	
16	Internal staff lacks skills	X
17	User adoption problems	X
18	Integration with legacy systems too difficult	
	Total Items Retained	8

**Note:** Items retained are denoted with 'X'

**Table 5** Customer Satisfaction: Items Retained after Scale Refinement through EFA for Public Insurance Companies

Item	Statements	Public
1	My company is very concerned with security for transactions	X
2	My company's words and promises are reliable	
3	My company is consistent in providing quality services	
4	Employees of the company shows respect to customer	X
5	My company fulfill its obligations to customers	
6	I have confidence in my company's services	X
7	My company offers personalized services to meet customer needs	
8	My company is flexible when its services are changed	X
9	My company is flexible in serving customer needs	X
10	My company provides timely and trustworthy information	
11	My company provides information if there are new insurance services	
12	My company fulfils its promises	
13	Information provided by my company is accurate	
14	My company has knowledge about insurance services	X
15	My company has knowledge about the market trend	
16	My company is able to answer questions about the policy or procedures for making changes	X
17	My company provides timely information regarding value of policy	X
18	My company is concerned with matching my insurance needs with my ability to pay	
19	My company follows through on promised services	
20	My company tries to avoid potential problems	X
21	My company tries to solve problems before they create conflicts	X
22	My company has the ability to openly discuss solutions when problems arise	
23	Assisted Service through Call-Center	X
24	Self Service through Internet	X
25	Calculate premium, compare products, online tracking of claims status	
26	Differentiated Service Levels based Service for different customer segments	X
27	I am completely satisfied with information quality	X
28	I am very pleased with what the company does for me	
29	My experiences with the company responsiveness have always been good	
30	I am very satisfied with service quality offered by my company	X
31	If I had to do it all over again, I would still choose to use the same company	
	Total Items Retained	15

**Note:** Items retained are denoted with 'X'

**Table 6** Customer Communication: Items Retained after Scale Refinement through EFA for Public Insurance Companies

Item	Statements	Public
1	Universal Reach	X
2	Affordability	
3	Multichannel	
4	Automated processes	X
5	Agency best practices for managing customer interactions	
	Total Items Retained	2

**Note:** Items retained are denoted with 'X'

**Table 7** CRM Benefits: Items Retained after Scale Refinement through EFA for Public Insurance Companies

Item	Statements	Public
1	Improved customer loyalty (win-back)	
2	Increased analysis of marketing program effectiveness	
3	Improved visibility to win-rate comparisons for different prospect types	
4	Improved profitability comparisons for different prospect types	X
5	Accurate profitability comparisons for policies sold through different channels	X
6	Providing online access to product information and technical assistance round the clock	X
7	Providing user-friendly mechanism	
8	Storing customer interests to target customers selectively	
9	Identify what customer's value and devise appropriate service strategies	X
10	Increased efficiency through automation	X
	Total Items Retained	5

**Note:** Items retained are denoted with 'X'

**Table 8** Before and after CRM implementation: Items Retained after Scale Refinement through EFA for Public Insurance Companies

Item	Statements	Public
1	Reduction in time required to generate customer lists	
2	Ability to make product recommendations during support requests	X
3	Electronic distribution of customer sales reports	
4	Reduction in time spent analyzing data to correct contradictory data from sales	X
	Total Items Retained	2

**Note:** Items retained are denoted with 'X'

**Table 9** Value Proposition: Items Retained after Scale Refinement through EFA for Public Insurance Companies

Item	Statements	Public
1	Achieve a single, real-time view of the constituent	
2	Share and leverage information across departments and agencies	X
3	Deliver single point access to programs and services	
4	Measure and promote constituent services based on requests, utilization and success	
5	Provide consistent communications across delivery channels- agency offices, contact centers, and constituent self-service	X
6	Create personalized and targeted services based on constituent needs and preferences	
7	Leverage dashboards and reporting for constituent service levels, performance measurements and trends	X
8	Increase efficiency and productivity	X
9	Decrease costs by servicing constituents through the most cost-effective channels	X
10	Increase efficiency by servicing constituents with consistent processes	X
11	Streamline operations and improve response times by automating business processes	
12	Make better decisions with real-time, action-oriented alerts, notifications and information analysis	X
	Total Items Retained	7

**Note:** Items retained are denoted with 'X'

## Marketing Implications of the Study

Implementing a fully functional CRM capability will allow public sector insurance firms to build customer-oriented relationships that ensure customers receive consistent and appropriately personalized services, efficiently and effectively (Singh and Anuroop 2000). This study can be of immense importance to practitioners in insurance sector as it presents refined scales for measuring various CRM constructs of interest for public sector companies. Importance of CRM technology and implementation considerations discussed in the study can provide much needed inputs to CRM technology experts so that they can focus on areas of concern. This can result in huge cost savings in CRM implementation.

The findings of this study confirm the fact that there was an improvement in performance in various functional areas after adoption of CRM initiatives by public sector. This brings into focus the need for public sector insurance companies to put in place systems that take into account a long-term view of CRM spending. The customer communication considerations for CRM implementation can be of great value to CRM technology experts. They can evaluate technology considerations while developing insurance sector specific CRM technology solutions. For practitioners, process level research on CRM constructs could provide useful guidelines in developing and managing successful CRM implementation initiatives tailored for public insurance companies.

The study proposes that the key to improving accessibility is not simply replacing traditional channels. Rather, based on a clear understanding of individual customer preferences, the key is serving customers effectively across a range of channels that includes the telephone, e-mail, fax, web, mail and face-to-face interaction. It is interesting to note that in the present study, senior public sector executives included among their critical challenges the difficulty they experienced in formulating a compelling business case to invest in CRM and the need to create the appetite for change necessary to drive the corresponding change in culture and processes that would lead to a customer-centric organization.

It is clear from the study that when parameters like trust and customer satisfaction improve, there is positive impact on performance. This corroborates findings of previous researchers (Keavenchy and Susan 2000) who noted that public sector insurance companies need to ensure that through CRM, customer relationships should be effectively managed and nurtured as important assets in an effort to improve customer retention and thus profitability. The study also identifies indirect drivers of CRM in the public sector companies. This is of critical importance to insurance firms

where for change is high.

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