

Analysis of the icici lombard insurance company business essay



**ASSIGN
BUSTER**

This project is done for ICICI Lombard General Insurance Company Ltd. In today's environment the customers have become sovereign authorities. They constitute the focal point for any business. The effectiveness of Customer Value Management helps a business enterprise to create and sustain differentiating value, which has been focused in this study. Customer Value Management represents the best practices used today by companies worldwide to attain their visions of finding out what customers want and giving it to them. Customer Value Management provides a rational set of technology; methods and strategies to weave needs and wants of customers into key process designs and management activities of a company. Customer Value Management is a vehicle to understand what the customers want from the Company and how it can go about aligning its business to deliver the same consistently. Every Company has perspectives about Finance, Customers, and Internal Business & Growth. Customer Value Management deals with the ' Customer Perspective' which along with the other perspectives is aligned with the strategic intent and posture of the company. The Customer Value Map will be designed to assess where the company's service stands against competitors on the relative quality versus price matrix.

This Study is based on certain objectives and the research on Customer Value Management has been developed based on these objectives. The objectives are as follows:

- _ To identify the route to provide superior delivered value to customers
- _ To unzip the direct link between customer value and the market share

_ To determine whether the ' Customer Value Map' can assess the position of the

Company's service against its competitors on the relative quality - price matrix

The Company can use this information to reengineer their business capabilities with a focus on customer envisioned value.

INTRODUCTION

CONCEPTUAL FRAMEWORK OF CVM

The concept of Customer Value Management was developed by Dr. John Henderson of Boston University together with an IBM consultant to enable management teams to get an actionable customer view and take actions resulting in increased customer satisfaction, loyalty and market share.

Customer Value Management (CVM) represents the very best practices used by companies worldwide to attain their visions of finding out what customers want and giving it to them. It has become a leading approach to attract market share. It is a means, by which a company can balance the demand for service and products with an infrastructure that is customer centric, delivers increased productivity & benefits the customer's product line.

Customer Value Management is a way to build customer loyalty and improve value for the company. It provides a way to understand customers' values and then leverage that knowledge to prevent customer dissatisfaction or to influence buyer behavior. It creates an alignment between customer's dynamic vision of ideal value delivery and business capability to deliver that

value. The company should focus on specific capabilities and infrastructure to deliver value and also reengineer business capabilities with a focus on customer envisioned value.

Customer Value Management is a very powerful tool to make the company truly customer oriented, attain top of the line growth and bottom line results. It is a formal, systematic approach to compete and grow, based on delivering customer value. CVM is also fast emerging as the ' Ruling Currency' to the growth of the company. In implementing CVM, how a customer perceives the company and obtains value should be identified and managed. If employed correctly it can help a business enterprise create and sustain differentiating value.

CVM helps a company in the following ways:

a) Develop and implement a business vision to become customer centered i. e. be

Number one in the eyes of their customers

b) Implement strategy to differentiate and compete on service and value to customers, not merely on products and price

c) Understand what drives customers' loyalty and give it to them

The implementation of CVM begins with the company identifying the needs/wants of their customers and building on specific capabilities and business practices to fulfill these needs/wants. CVM is thus a top down approach.

<https://assignbuster.com/analysis-of-the-icici-lombard-insurance-company-business-essay/>

Customer Value Management is a methodical approach that enables a company to fulfil its vision of becoming a premier service provider to its target customers. This can be applied at the level of an individual service or on an organization wide basis. CVM is an ongoing process that includes:

- a) Monitor changing needs of target segment
- b) Monitor changing customer perceptions of company's performance
- c) Input business improvements
- d) Monitor and measure results.

Customer Value management is a way of thinking and running an organization. It helps

the company to provide high value experience to customers and thus forms a winning

strategy for customer loyalty and growth.

NEED AND SIGNIFICANCE OF STUDY

Customer Value Management is a relatively new concept. It is now as an emerging art

and science that is calculating its worth in market share and shareholder values. Virtually every company has a vision and a strategy to achieve it. But missing element from all of these companies is the very presence of the word ' Customer'. Incorporating the word customer into the vision statement has been a fairly recent phenomenon. In today's environment the customers

<https://assignbuster.com/analysis-of-the-icici-lombard-insurance-company-business-essay/>

have become monarchs. They have taken on new importance as the focal point for business. Today's management philosophy is to find out what the customers want and give it to them. This helps company to stay head of competition.

There are key issues for major companies that need to be addressed. These can be

summarised as follows :

_ Just having a clear vision and strategy to achieve that vision is not enough.

Even when

a strategic vision is in place it might have little impact on the goals of the company.

Hence this strategic vision has to be tied to the customer's expectations from the

company.

To remain successful today, the theme for a business's vision and strategy must change

from, " Where do we want to be in five years?" to " Where do our customers want us to

be, and how do we get there?"

Another thing shared by many companies is a marked absence of an approach to put a

customer-focused vision into real action. The company's ability to develop a vision has

often exceeded its grasp in terms of being able to implement the realities of the required

changes down to their organizational level.

For every given customer desired outcome, the full value chain relating to how a

customer perceives and obtains value from the company must be identified and managed

having the customer as the focal point.

Customer Value Management helps address all the above issues. It helps to leverage

customer value to drive business performance. Organizations can successfully employ

customer value management system to know their customers precisely.

They can also

know their competitors' customers. A good customer value management allows

companies to assess their products and services meet customer' needs

According to a research conducted by Dr. John Henderson of Boston University and an

IBM consultant, it was concluded that " Companies that fully lever the potential of

Customer Value Management will become ideally customer centered and attain its vision

to become the superior provider to its customers. Customer Value Management acts as a

source of sustainable competitive advantage and a driver of customer value creation.

The need for the study stems from the fact that the Management at ICICI Lombard

General Insurance Company Ltd. has to observe the effectiveness of Customer Value

Management. This study will help the company to understand as to how it can arrest

value migration, protect existing value of customers and capture new value by modifying

their business design.

The significance of the study is that the company would benefit by knowing how

effective the perspective of Customer Value Management presently is. The policyholders

and the employees of the company have been involved in this study to give the company

an in depth picture of the views of both of these two categories of people.

The areas of

improvement (recommendations) will be highlighted in the study, which will immensely

benefit the company.

AIM AND OBJECTIVES OF THE RESEARCH

The General Insurance industry currently is characterized by speed, quality, customer satisfaction, innovativeness etc. This highlights the significance for General Insurance companies to develop new ways of keeping their customers

satisfied and hence minimize the risk of losing customers. The most relevant objective is

to develop and examine the market perceived quality profile and also customer value.

Specifically the following objectives have been set for our research investigation:

- _ To identify the route to provide superior delivered value to customers
- _ To unzip the direct link between customer value and the market share
- _ To determine whether the ' Customer Value Map' can assess the position of the

Company's service against its competitors on the relative quality – price matrix

REVIEW OF LITERATURE

Purpose of the Review of Literature

- To identify the problem statement
- To understand the secondary data that has been gathered in the field of the study
- To attempt to make new findings on the problem statement without reinventing

If CRM is the “ pipes” of a system for two-way communication with customers, then

CVM is the human factor. Businesses that knows what customers value, how to deliver this value, and when it communicate to customer so they can perceive the true value delivered achieve competitive advantage, better results in the business and shareholder value. The problem of organisation

<https://assignbuster.com/analysis-of-the-icici-lombard-insurance-company-business-essay/>

which facing is the turn this theory in to practice. The idea of business success through customer focus, and vision and mission statements are full of aspirational language about creating value for customers. Companies that capture and use customer data with the same kind of discipline, passion and understanding they give to operational and financial data are learning that this business practice is well worth the time and money invested. By focusing on winning in the customer market, they also win in attracting and retaining talented people and in the financial market. Customer value management is about:

Choosing value: Finding out how customer rate the value that is delivered compared to the competition, and using this finding to focus priorities and then decide what value proposition to take to market.

Delivering value: Making sure that the business processes are aligned with the value

Proposition and determining what business improvements will deliver the greatest value

to customers.

Communicating value: Educating the market on the value proposition and how the

company is focusing investment to deliver greater value than the competition.

1. Customer Value Management

<https://assignbuster.com/analysis-of-the-icici-lombard-insurance-company-business-essay/>

Customer Value Management (CVM) helps leverage customer value to drive the

Company's business performance. Effective customer value management helps the organizations to assess which products and services their customer's need, and can define their value proposition relative to their competitors.

Focus Areas are:

- _ Internal/External CVM Assessments
- _ Competitive Analysis
- _ Implementation Plans/Staff Training
- _ Strategic CVM Business Plans
- _ Customer Relationship Management System

CVM integrates a range of strategies that allow your organization to be more valuable to

your current and future customers

The process of developing and implementing effective CVM strategies can be done by

tools and techniques like Internal CVM Review, Map of customer acquisition, service and delivery processes, Employee perceptions of where and how they add customer value

<https://assignbuster.com/analysis-of-the-icici-lombard-insurance-company-business-essay/>

Benefits of Customer Value Management are Know and understand your customers needs, Increase customer loyalty, Assess product and service lines to align with client needs

2. Leveraging Customer Value Management

How companies in the insurance industry can improve financial performance?

The general insurance industry, long considered a rock of stability, is now facing major

challenges brought about by several factors like increased competition, new technologies,

pricing pressures, declining industry profitability & increased customer demand for better

service, timely claim settlement, and dispute resolution. How insurance firms respond to

these challenges affects not only short-term profitability, but also long-term survival.

Many companies will be forced out of specific market segments or whole markets

because of poorly defined customer management & customer service strategies. The need

has never been greater for solutions based on an improved understanding of customer

behavior and customer lifetime value. An integrated view of behavioral data contributes

to an improved understanding of customer potential value.

The benefits of proactive view of customer value:

General insurance companies have made significant IT investments and are increasing

their adoption rate of CRM technologies. The industry lags others in leveraging this

information to improve customer profitability and gain competitive advantage in the

market. Customer Value Management (CVM) views data as a strategic resource that

enables the organization to make better and more informed decisions. Its focus is

prediction and explanation - the identification, quantification, and prioritization of factors

having an impact on the value chain and customers' current and potential value. Being

able to accurately identify and rank order customer characteristics and behaviors having

the highest impact on risk, premium and servicing costs can yield immediate, bottom-line

benefits to insurance companies. With this insurance company can more quickly identify

which factors are significant to improve pricing and refocus sales and marketing

programs?

The result of this proactive CVM approach to insurance is:

Risk segments: Groups of customers and policy claims having similar risk profiles and

identification of key risk factors and value differentiators across segments.

Propensity-to-claim scores: Predictive models that quantify the likelihood of submitting

claims, size of claim, fraud propensities.

Loss elasticity's: Quantification of the potential revenue loss due to unit changes among

the risk factors.

Prioritized Market Test pilots: Recommended list of potential pilots to test in the

market.

The CVM approach expands the scope of information by supplementing it with external

Relationship-based customer data. This relationship view of customer lifetime value is

what we call the next evolution in management. It helps insurance companies realize the

many benefits from positioning their products and services to meet customers evolving

security and financial needs. CVM enables insurance companies to achieve significant

improvements in its profitability and increase the effectiveness of their customer

management, product design and sales management strategies.

3. Customer Value Management: Turning Customer Insight into More Profitable

Relationships

CVM helps to understand how line of business, marketing, sales managers and executives in the insurance business can:

- Improve customer retention
- Increase revenue
- Drive down cost in their businesses

Customer Value Management approach can be used for more accurate cost projection,

and to better measure actual value contribution by customers. Customer Service-Products

and prices in an Insurance industry can be easily duplicated. Thus service becomes the

only differentiator which will provide the competitive advantage in the long run.

Insurance companies should have a cell for customer management, which caters to the

customer needs and complaints. The Insurance agents are the interface between the

customer and the Insurance Company. The agents should be able to accomplish the

following to improve service.

_ Assessing and analyzing the client's risk profile

_ Finding the best product or products available in the market

Negotiating the best deal available

_ Continuity of service throughout the period of Insurance

_ Claims advisory service

5. CRM: Moving Toward Customer Value Management

Changes in technologies, business processes, organization models and customers

themselves have fundamentally affected the marketing, sales and service continuum.

CRM's evolution is temporarily slowed, but a new round of more dramatic change is on

its way and new customer strategies will be built on a platform of new technology

capabilities.

Companies that aspire to serve their customers both well and profitably need to be aware

of five major trends that will play a role in the evolution of CRM into CVM - rising

customer expectations, viewing customers as assets, improving customer intelligence

quotients, developing new organization models and increasing financial rigor. It is

important to have a customer value measurement system, which often succeeds the

customer satisfaction measurement system. The customer value measurement systems

need to cater to many dimensions of the relationship including those of competitor

analysis. Sharing the customer value measures with the customer forms an integral part of

a metrics based customer relationship management system

METHODOLOGY OF THE REVIEW OF LITERATURE

Review of the literature has been done with the help of the following

sources:

- Company Literature

- Brochures

<https://assignbuster.com/analysis-of-the-icici-lombard-insurance-company-business-essay/>

- The Internet
- ICICI Lombard – Quarterly Report
- Publications
- Articles on CVM
- A text book on Customer Value Management

BENEFITS OF REVIEW OF LITERATURE

The review of literature has been very informative, as it has thrown light on the research

and articles that have been written on Customer Value Management.

Moreover it has

helped in identifying the degree of research that has been done already on this topic. It

has helped our study, as it constituted the basis of secondary data for our study.

METHODOLOGY

Scope of the Study

This study is restricted to the Personal Life Insurance sector. Research is conducted at

Bangalore Metropolitan Area only.

Type of Research

Our research is a formal study with some elements of exploration involved.

This research

is also aimed at recognising the areas of improvement for ICICI General Insurance

Company Ltd. in terms of their relationship with customers.

Data Collection

Data sources consisted of primary and secondary. Sources of primary data included the

policyholders of ICICI Lombard Life Insurance Company Ltd. and also its employees.

Sources of secondary data included the information provided by the organisation and

various text books, magazines, internet and company brochures. A structured

questionnaire was developed and administered to generate the primary data.

Sampling Technique

Random Sampling

It is also called probability sampling or chance sampling. Under this sampling design

every item of the universe has an equal chance of inclusion in the sample. All choices are

independent of one another. It gives each possible sample combination an equal

probability of being chosen. I have therefore adopted this technique in my study.

Sample Size

The composition of my sample consisted of policyholders of ICICI General Insurance

Company Ltd., the employees and insurance advisors. The respondents whom I have

approached are 50 in number.

Instrumentation Techniques

Structured Questionnaire : The primary data has been collected through structured

questionnaires, which were administered to the respondents.

Tools used for testing Hypotheses

The Chi-Square and z-test were used for testing the Hypotheses. Three hypotheses were

stated and the statistical testing of hypotheses was conducted by these tests. These

statistical tools were used keeping in mind the distribution of the population.

Limitations of the Study

Research investigation is beset with time and resource constraints. Research is limited to

Bangalore Metropolitan Area and hence the limitation of generalization becomes

obvious.

Insurance

Insurance, in law and economics, is a form of risk management primarily used to hedge against the risk of a contingent loss. Insurance is defined as the equitable transfer of the risk of a potential loss, from one entity to another, in exchange for a premium. Insurer, in economics, is the company that sells the insurance. Insurance rate is a factor used to determine the amount, called the premium, to be charged for a certain amount of insurance coverage. Risk management, the practice of appraising and controlling risk, has evolved as a discrete field of study and practice.

Insurance companies may be classified as

- Life insurance companies, which sell life insurance, annuities and pensions Products.
- Non-life or general insurance companies, which sell other types of insurance.

In most countries, life and non-life insurers are subject to different regulatory regimes and different tax and accounting rules. The main reason for the distinction between the two types of company is that life, annuity, and pension business is very long-term in nature – coverage for life assurance or a pension can cover risks over many decades. By contrast, non-life insurance cover usually covers a shorter period, such as one year.

Insurance companies are generally classified as either mutual or stock companies. This is

more of a traditional distinction as true mutual companies are becoming rare. Mutual

companies are owned by the policyholders, while stockholders (who may or may not own

policies) own stock insurance companies. Other possible forms for an insurance company

include reciprocals, in which policyholders ‘reciprocate’ in sharing risks and Lloyds

organizations.

Insurance companies are rated by various agencies such as A. M. Best. The ratings

include the company’s financial strength, which measures its ability to pay claims. It also

rates financial instruments issued by the insurance company, such as bonds, notes, and

securitization products.

Reinsurance companies are insurance companies that sell policies to other insurance

companies, allowing them to reduce their risks and protect themselves from very large

losses. The reinsurance market is dominated by a few very large companies, with huge

reserves. A reinsurer may also be a direct writer of insurance risks as well.

Captive insurance companies may be defined as limited-purpose insurance companies

established with the specific objective of financing risks emanating from their parent

group or groups. This definition can sometimes be extended to include some of the risks

of the parent company's customers. In short, it is an in-house self-insurance vehicle.

Captives may take the form of a “ pure” entity (which is a 100% subsidiary of the selfinsured parent company); of a “ mutual” captive (which insures the collective risks of

members of an industry); and of an “ association” captive (which self-insures individual

risks of the members of a professional, commercial or industrial association).

Captives

represent commercial, economic and tax advantages to their sponsors because of the

reductions in costs they help create and for the ease of insurance risk management and

the flexibility for cash flows they generate. Additionally, they may provide coverage of

risks which is neither available nor offered in the traditional insurance market at reasonable prices.

The types of risk that a captive can underwrite for their parents include property damage,

public and products liability, professional indemnity, employee benefits, employers

liability, motor and medical aid expenses. The captive’s exposure to such risks may be

limited by the use of reinsurance.

Captives are becoming an increasingly important component of the risk management and

risk financing strategy of their parent. This can be understood against the following

background:

heavy and increasing premium costs in almost every line of coverage;

- difficulties in insuring certain types of fortuitous risk;

- differential coverage standards in various parts of the world;

rating structures which reflect market trends rather than individual loss experience;

- Insufficient credit for deductibles and/or loss control efforts.

There are also companies known as ' insurance consultants'. Like a mortgage broker, these

companies are paid a fee by the customer to shop around for the best insurance policy

amongst many companies.

Similar to an insurance consultant, an ' insurance broker' also shops around for the best

<https://assignbuster.com/analysis-of-the-icici-lombard-insurance-company-business-essay/>

insurance policy amongst many companies. However, with insurance brokers, the fee is

usually paid in the form of commission from the insurer that is selected rather than

directly from the client.

Neither insurance consultants nor insurance brokers are insurance companies and no risks

are transferred to them in insurance transactions.

Third party administrators are a company that perform underwriting and sometimes

claims handling services for insurance companies. These companies often have special

expertise that the insurance companies do not have.

Company Profile

ICICI Lombard General Insurance Company Limited is a 74: 26 joint venture between

ICICI Bank Limited and the US-based \$26 billion Fairfax Financial Holdings Limited.

ICICI Bank is India's second largest bank; while Fairfax Financial Holdings is a

diversified financial corporate engaged in general insurance, reinsurance, insurance

claims management and investment management.

Lombard Canada Ltd, a group company of Fairfax Financial Holdings Limited, is one of

Canada's oldest property and casualty insurers. ICICI Lombard General Insurance

Company received regulatory approvals to commence general insurance business in

August 2001.

About ICICI Bank

ICICI Bank (formerly Industrial Credit and Investment Corporation of India) is

India's largest private sector bank and second largest overall. ICICI Bank has total assets

of about USD 56 Billion (end-Mar 2006), a network of over 619 branches and offices,

and about 2400 ATMs. ICICI Bank offers a wide range of banking products and financial

services to corporate and retail customers through a variety of delivery channels and

through its specialized subsidiaries and affiliates in the areas of investment banking, life

and non-life insurance, venture capital and asset management. ICICI Bank's equity shares

are listed in India on stock exchanges at Kolkata and Vadodara, the Stock Exchange,

Mumbai and the National Stock Exchange of India Limited and its ADRs are listed on

the New York Stock Exchange (NYSE). During the year 2005 ICICI bank was involved

as a defendant in cases of alleged criminal practices in its debt collection operations and

alleged fraudulent tactics to sell its products.

ICICI was established by the Government of India in the 1960s as a Financial Institution

(FI, other such institutions were IDBI and SIDBI) with the objective to finance large

industrial projects. ICICI was not a bank - it could not take retail deposits; and nor was it

required to comply with Indian banking requirements for liquid reserves.

ICICI borrowed

funds from many multilateral agencies (such as the World Bank), often at concessional

rates. These funds were deployed in large corporate loans.

All this changed in 1990s. ICICI founded a separate legal entity - ICICI Bank which

undertook normal banking operations - taking deposits, credit cards, car loans etc. The

experiment was so successful that ICICI merged into ICICI Bank ("reverse merger") in

2002.

At the time of the reverse merger, there were rumors that ICICI had large proportions of

Non Performing Loans ("NPA", as they are known in India) on its books - in particular to

the steel industry. Since 2002, there has been a general revival in Indian industry (and

metal based industry in particular). It is widely believed that the proportion of NPAs has

come down to prudent levels (even if it were high earlier).

ICICI Bank now has the largest market share among all banks in retail or consumer

financing. ICICI Bank is the largest issuer of credit cards in India. It was the first bank to

offer a wide network of ATM's and had the largest network of ATM's till 2005, before

SBI caught up with it.

ICICI bank now has the largest market value of all banks in India, and is widely seen as a

sophisticated bank able to take on many global banks in the Indian market.