



Research Paper

## Knowledge management in life insurance industry – evidence from India

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**ABSTRACT :** Life insurance industry being highly knowledge-intensive, the proper adoption of KM strategies can give a competitive edge to a life insurer in huge market potential in country like India. This paper aims to understand the KM practices followed in various private life insurance companies compared to the government owned and oldest life insurer in the country – Life Insurance Corporation (LIC). The paper uses a sample comprising of private life insurance companies and the sole public sector life insurer in India. MIT90s framework and Hansen, Nohria, and Tierney's knowledge strategy model of codification versus personalization are used to evaluate KM practices. The paper empirically shows that private life insurance companies' perform well on all dimensions of KM compared to LIC; however, no insurance company follows codification and personalization knowledge strategy as envisaged by Hansen, Nohria, and Tierney's model. There is huge scope of KM implementation in insurance industry in India.

**KEY WORDS :** Life Insurance, Knowledge management, Personalization, Codification, Strategy.

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### INTRODUCTION

De Geus (1997, p.16) points out that “during the past 50 years, the world of business has shifted from one dominated by capital to one dominated by knowledge”. Both business and academic communities believe that by leveraging knowledge, a business organization in general, and life insurance organizations in particular, can sustain its long-term competitive advantages. Knowledge management is on its way to becoming an integral business function (Grover and Davenport, 2001) and a new aspect of management for many organizations.

Woolf (1990) defined knowledge as organized information applicable to problem solving. Broadly Turban *et al.* (2007) said that “knowledge is information that has been organized and analyzed to make it understandable and applicable to problem solving or decision making.” Nonaka and Takeuchi (1995) suggested the ‘Tacit knowledge’ and ‘Explicit knowledge’ as the types of knowledge. Rastogi (2000) provides a definition that seems to embrace the prism of KM. He states “knowledge management may be defined as a systematic and integrative process of coordinating organization-wide activities of acquiring, creating, storing, sharing, diffusing, developing, and

deploying knowledge by individuals and groups in pursuit of major organizational goals.”

Insurance sector is one of the sectors, which has witnessed this change and has tuned itself to the local/global demands particularly after the inception of General Agreement on Trade in Services (GATS). In fact, the more developed and efficient a country's insurance market, the greater will be its contribution to economic prosperity (Skipper, 2001). The Insurance Sector fundamentally being a service sector, it should make learning an inbuilt component in rendering quality service. In fact, the life insurance industry is most knowledge-intensive industry, among the financial services sector.

#### Role of KM in life Insurance Business:

The life insurance sector in India is witnessing a tough competition among the both public and private sector insurers, with an increasing impact on their efficiency in sales, innovation, underwriting, claims management, and risk management. New untapped market is being exploited by both private insurers and the sole public sector insurer forcing the insurers to come out with innovative schemes. Insurers are continuously

increasing their efforts to design new life insurance products/services that are suitable for the dynamic market and making use of innovative distribution channels to reach a broader range of the population. The complex structure of the market forces evolving in the light of detariffing is necessitating the increasing importance of market and financial supervision on the part of the insurance regulator in the country – Insurance Regulatory Authority of India (IRDA). There is huge untapped potential and more scope for new entrants to enter the life insurance market.

A key challenge for any life insurance organization is to seek to maintain and improve performance, and how this can be done under conditions of radical changes is not clear. The new and unpredictable business environment puts a premium on innovation and creativity much more so than it has in past. It is “obsoleting what you know before others obsolete it and profit by creating the challenges and opportunities others haven’t even thought about” (Malhotra, 2003).

Few industries gather the amount of information in the course of doing business that the insurance industry does (Zolkos, 2005). But collecting information is n’t the same thing as applying knowledge, and that is something that doesn’t happen automatically across far-flung organizations. Making the most of lessons learned in the course of doing business and applying what was learned to future decision-making requires a companywide commitment to knowledge management. Several insurance industry organizations have begun to recognize the value that a knowledge management framework can have to their business and, ultimately, to the bottom line. A knowledge management program, though, is more than an information technology system. Ultimately, it’s people that drive the programme.

### Objectives:

The objective of this study is to test empirically the basic KM argument. KM in one well-established life insurance organization differs from other newly but privately owned life insurance organizations in India. The sole public life insurer in India has enjoyed the absolute monopoly in the market as there were no other life insurance organizations in India till year 2000. In year 2000 as part of liberalization and globalization in the country, the insurance sector was opened to private players. Private organizations are generally considered to be more flexible in adapting KM practices *vis-à-vis* their public sector counterparts. Hence, it is generally expected that private life insurance organizations may perform better in KM practices compared to the public sector life insurance entity.

## MATERIALS AND METHODS

This study is based on KM strategy proposed by Hansen *et al.* (1999) and MIT90s Framework (Scott Morton, 1991). MIT90s framework demonstrates that organizations are

complex systems of people, structures, technology, culture; processes and management operating in an environment which itself is complex and constantly changing. This framework represents the complexity as a set of five forces in dynamic equilibrium perpetually striving for stability. These forces in the framework are: strategy, structure, management processes, Individuals and roles, and technology.

The hypotheses are postulated to describe relationships between knowledge management strategies (KM strategies) and types of organizations (public – LIC and private life insurance organizations). These hypotheses were developed using the MIT90’s framework:

- Knowledge strategy: codification and personalization.
- Structure: vertical and horizontal structure, and coordination.
- Knowledge management processes: acquisition and creation, storage and retrieval, transfer and sharing, application.
- Human resources: recruitment, reward systems, and training.
- Information and communications technology

The item used in five point Likert scales which are defined as: 1 = strongly disagree, 2 = disagree, 3 = Neutral, 4 = agree, and 5 = strongly agree. However, scores of few dimensions are sum of some items from same dimension as well as other dimensions.

The study used a survey method to collect the data. Based on operationalization of hypotheses, a survey questionnaire was developed. A pilot test was conducted. Earlier, this questionnaire was developed in English, but for certain respondents in some cities and for government-life insurer, it was then translated into Hindi language. For data collection, questionnaire was randomly distributed among the employees both working in the office as well as in the field.

The criteria used to select private insurer in the sample set was: 1) in operation for at least 5 years, and 2) equity share capital of at least Rs. 500 crores. Based on these criteria, three life insurance companies from private sector, with maximum number of years of operation and largest equity capital base, were selected for this study. These are: Birla Sun Life Insurance Co. Ltd., HDFC Standard Life Insurance Co. Ltd. and ICICI-Prudential Life Insurance Co. Ltd. These private life insurance companies were used in KM practices comparison with the government owned Life Insurance Corporation of India (LIC).

The questionnaire were distributed to a total of 416 research subjects; 167 for LIC at three cities in India (at Hyderabad-Secunderabad, Nanded and Nagpur), and 249 for private life insurance organizations (at Hyderabad-Secunderabad, Nanded and Nagpur). A total of 323 answers from participants from both types of life insurers were received. Of the 323 answers, 302 were found to be usable.

A reliability analysis test using Cronbach’s alpha was conducted on each of the five dimensions and the entire 30

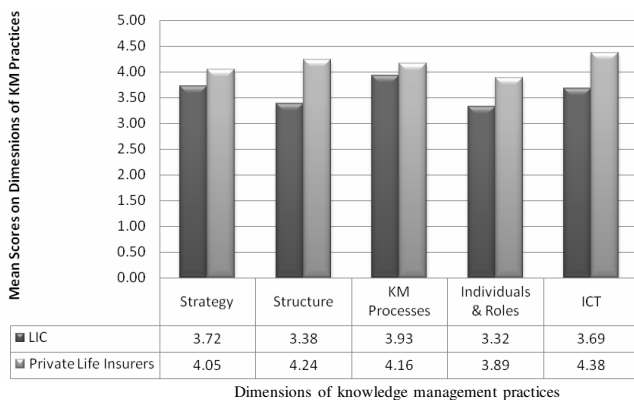
items. The value of Cronbach’s alpha ranged from 0.74 to 0.85, indicating a good degree of reliability.

To compare the KM practices between LIC and private life insurers, an independent-sample t test (two-sample t test) was applied for each hypothesis. A significance level of 5 per cent is used in the study.

## RESULTS AND DATA ANALYSIS

Fig. 1 shows the comparison of mean scores for both LIC and private life insurance companies for various knowledge management dimensions used in this study.

Fig. 1 shows that the private sector life insurance companies mean scores were more than LIC on all the dimensions of KM practices. To explore the reasons behind the better performance in knowledge management practices in private life insurers *vis-à-vis* LIC, it is imperative to know how these two groups are performing under various KM dimensions. Using independent sample t-tests, various dimensions of KM are explained below.



**Fig. 1: Comparison of mean scores for LIC and Private Life Insurers for various KM practices dimensions**

### Strategy:

Being a government-owned entity, it is generally assumed that organizations like LIC will follow more of codification strategy, and private institutions being more adaptable and flexible, will follow personalization strategy. However, results were found to be on the contrary. This may be due to tough competition offered by 22 private life insurers operating in the country to LIC.

LIC, the sole public sector entity which has enjoyed absolute monopoly till year 2000, is now facing competition from relatively newly formed private life insurers who have foreign collaborators. Due to collaborators rich and long experience, the private life insurers are coming up with different types of innovative policies and marketing and

distribution plans. In the FY 2009-10, the 22 private life insurers introduced 350 new life insurance products, while LIC introduced only 09! The private life insurers selected for this study alone introduced 50 new products (IRDA, 2011).

The total business of LIC, in terms of premium, sum assured, number of policies and thus, overall market share is showing a decline. On the basis of total premium income, the marketshare of LIC declined marginally from 70.92 per cent in 2008-09 to 70.10 per cent in 2009-10. Accordingly, the market share of private insurers had gone up marginally from 29.08 per cent in 2008-09 to 29.90 per cent in 2009-10. The market share of private insurers in first year premium was 34.92 per cent in 2009-10 (39.11 % in 2008-09). The same for LIC was 65.08 per cent (60.89 % in 2008-09). During 2009-10, life insurers had issued 53.2 million new policies, out of which, LIC issued 38.9 million policies (73.02 % of total policies issued) and the private life insurers issued 14.4 million policies (26.98 %). While LIC reported an increase of 8.21 per cent (-4.52 % in 2008-09) in the number of policies issued over the previous year, the private sector insurers reported a decline of 4.32 per cent (13.19 % increase in 2008-09) in the number of new policies issued (IRDA, 2011).

LIC is changing its marketing strategy as well as its market structure, which is evident from its aggressive marketing policies and new products for newer market segments. The performance of insurance business to a large extent depends on the skills and the ability of a well-trained agency force to attract public to its fold (Bawa, 2007). LIC is continuously introducing new products, training its existing agency force, and recruiting new and training them. In year 2009-10, LIC introduced 09 new products, trained more than 0.50 million employees through in-house training, MDC, professional training institutes in India and abroad, and recruited approx. 50,000 agents. It generated business through various alternate channels like banks (referred to as Bancassurance under Corporate agent category), Chief Life Insurance Advisors (CLIA), and Brokers (LIC, 2010).

LIC is also improving its customer service through expeditious settlement of the maturity as well as death claims, alternate channels of premium payment like electronic clearance system (ECS), electronic bill presentation and payment (EBPP) through various banks, ATM, online premium payment through LIC’s website, premium collection through franchisees, empowering senior business associates and agents for premium collection; policy information through SMS, setting up of IVRS/ Info-centers, etc.

Private life insurers see immense market potential, as insurance market is one of the fastest growing markets in India. The factors like emerging socio-economic changes, increased wealth, education, and awareness of insurance needs increase the possibilities for private life insurers to increase their penetration in insurance market. However, as the same time, it is learning curve for private life insurers, though their

collaboration with foreign insurance partners can bring them insurance knowledge but there is lot to learn about the needs and requirements of various types of customers in India.

### Structure:

The structure part of the survey tries to explore three aspects of organization and management: vertical knowledge flows, horizontal knowledge flows, and centralization of the coordination. The results show that LIC does not support more of vertical flow of information when compared to the private life insurers. It is well known fact in a government-owned enterprise, there is a vertical flow of information from superior to subordinate and *vice-versa*. The same was expected in LIC. This can be attributed to LIC's competition with private life insurers. As a result, there is empowerment of employees, and thus a horizontal flow of information is also supported. For instance, LIC has empowered its senior business associates in the rank of development officers and agents to collect policy premiums from customers. As on 31st March 2010, LIC has 08 Zonal Offices located at major cities of the country like Mumbai, Delhi, Kolkata, Chennai, etc., 109 Divisional Offices, 2,048 Branch Offices and 1,004 Satellite Offices (SOs) (LIC, 2010). Divisional Offices monitor and control the operations. Branch Offices procure business and are responsible for all customer interface transactions. Satellite Offices also procure business and are responsible for immediate customer services required. More empowerment is being given at offices/branches at the lower levels spread across towns and rural areas.

Horizontal knowledge flow is as important as vertical knowledge flow in private life insurance organizations. Both LIC and private life insurance organizations reported a reasonable degree of horizontal knowledge flows and centralization of the coordination.

### Knowledge management processes:

The objective of these items was to examine whether LIC focuses on all knowledge management processes (storage and retrieval, transfer and sharing, and application of knowledge as well as acquisition and creation of knowledge) more than the private life insurance organizations. Neither private life insurers nor LIC are fully following the knowledge management processes. However, the means scores of private life insurance companies is more than LIC (Fig. 1), which shows that KM processes are followed more in private life insurers.

### Individuals and roles:

The objective of these items was to examine whether LIC importance on human aspect of knowledge management. Under these various aspects like recruitment, reward system, and training were tested.

For the recruitment aspect, the degree of suitability to re-use of knowledge and implementation solutions (codification strategy) and the tendency to recruit people who are good at

problem solving (personalization strategy) was used. LIC's human resource department do take care that the people recruited in their organization are more capable of re-using the existing knowledge and implement the standard solutions. LIC recruited 1050 employees/officers and 57,951 insurance agents during the period 2009-10.

Private life insurers emphasize more on problem solving skills of their employees and ability to take decisions in ambiguous situations. They recruit 'Financial Consultants' who should be able to assess the insurance needs of the customer and develop an insurance solution. HDFC Standard Life Insurance, one of the private life insurers, appointed 56,000 new licensed financial consultants during the period 2009-10.

Two aspects of knowledge use/reuse and/or sharing were tested with pay systems in this study: 1). Pay systems encourage using and contributing to document databases (codification strategy), and 2). Pay systems encourage the direct sharing of knowledge with others (personalization strategy). Both LIC and private life insurance organizations do have a system where people are rewarded for their use/reuse and contribution to electronic databases and/or direct sharing of knowledge with other employees.

Two aspects of knowledge sharing were tested with 'training' in this study: (1) reliance of training on documents and manuals (codification strategy), and (2) usage of coaching or mentoring for knowledge transfer (personalization strategy). Though LIC relies more on documents and manuals for training their employees, it also believes in training their employees and staff based on coaching and mentoring. However, the private life insurers training of its employees and officers is based more on knowledge sharing based on coaching and mentorship.

### Information and communication technology:

Two aspects of information and communication technology application in KM practices were measured: 1). Accessing data and documents and data (codification strategy), and 2). Contacting people (personalization strategy).

Both LIC and private life insurance organizations have been investing heavily in developing information and communication technology infrastructure (Life Insurance Corporation, 2011), (Birla Sun Life, 2011), (HDFC Standard Life Insurance, 2011), (ICICI Prudential Life Insurance, 2011). But the emphasis on information technology and communication network is on customer service - creating various electronics/online alternate channels of premium payments, policy information through SMS, IVRS/Info-centers, etc., and creation of corporate data warehouse and electronic document management system (EDMS), etc., with emphasis on customer service. Though, it is also helping in work-flow automation and thereby speeding-up office communication and decision-making process. However, the role of ICT, both at LIC and various private life insurance organizations is not knowledge

sharing. One major reason can be the competition in the industry and incorporation of new life insurance companies – neither of them (LIC and private life insurers) has any existing ICT infrastructure.

#### **Concluding of remarks and future research directions:**

This study attempts to compare the knowledge management practices in various private life insurance companies with Life Insurance Corporation (LIC) in India. Based on Hansen *et al.* (1999) model, an attempt has been made to find out which type of knowledge strategy – Codification vs. Personalization – is followed by life insurers in India. Data on various dimensions of KM were collected and analyzed. The mean score of private life insurance companies on all the dimensions of KM was found to be higher compared to LIC. However, to understand the type of knowledge strategy being actually followed by LIC and private life insurers, further analyses was carried out.

On KM strategy dimension, LIC does not follow more of codification strategy than compared to its private life insurance competitors, and at the same time, the private life insurance companies do not follow more of personalization strategy than LIC. Neither of them follows one particular knowledge strategy completely.

On KM structure dimension, LIC is not following a strict vertical flow of information. The private life insurers are also not following more of horizontal flow of information at all levels within the organization. LIC is permitting some degrees of horizontal flow of information within in the organization and private life insurance companies are following a good extent of vertical flow of information within the organization.

On KM processes dimensions, it is evident that neither of the life insurers is giving importance to KM within their organizations. LIC and private life insurance companies have dedicated staff to capture information, store, and update in electronic documents and databases., but not for acquiring and creating new knowledge. LIC has large number of experienced employees and agency force which have more knowledge about the market, customers, products and associated services. But no way has been devised by LIC to capture this implicit knowledge. However, private life insurers do not enjoy such luxury. Whatever, expert and their expertise is available in private life insurance sector, they are not able to tap them as their expertise is not available to the people who need it. Though documents generated in any part of the country can be accessed by an employee, however, LIC do not have the culture of accessing the information for knowledge sharing and/or creating purpose and even accessing some important document without permission from its author. Similar kind of practices is also found in private life insurance companies. Private life insurance organizations do encourage their employees to share knowledge with others but in a face-to-face situation not through ICT. Private life insurance companies

do transfer their people from one department to another, and/or from one branch to other to develop knowledge and share it with others. Knowledge reuse economics in not used much and products and services are not created to by pooling together experts' guidance to a great extent in LIC.

On KM human resource or individual and roles dimension, both LIC and private life insurers do take care to recruit the type of people suitable for their job requirements. Pay systems in both types of life insurance organization do not have incentives to encourage the employees to contribute towards KM. From training dimension, both LIC and private life insurance organization are moving towards coaching and mentoring kind of training.

On KM ICT dimension, as it is evident that LIC and various private life insurance organizations are investing heavily in ICT infrastructure for customer service not to create knowledge and transfer and share it others within the organization.

As Hansen *et al.* (1999) model says that an 80:20 principle should be followed. That is, an organization should follow 80 per cent of one knowledge strategy and 20 per cent of the other knowledge strategy. The analysis points to the conclusion that LIC follows majorly a codification strategy along with personalization strategy, but not in spirit of Hansen, *et al.* (1999) model. Similarly, private life insurance companies follow more of personalization knowledge strategy and to some good extent codification. Again, not in spirit of Hansen *et al.* model's 80:20 principles.

This study reveals that LIC and private life insurance companies are in phase of growth and expansion. To implement KM in its true spirit seems to be too early. It can be said that since insurance industry in India is in nascent stage, it will take time for life insurance industry to make KM as a competitive strategy.

This study uses a small sample of 03 private life insurance companies out of 22 registered private life insurers and the sole government owned LIC, and the survey was carried out only in three cities in India. Also, a quantitative approach has been used to evaluate KM practices. Therefore, it would be very interesting to carry out further research using a larger sample, in major cities of the country and using both quantitative as well as qualitative method to verify the findings.

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