

Customer Preference towards Life Insurance Policies

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ABSTRACT

Insurance industry includes Life insurance and non-life insurance. LIC (Life Insurance Company) is the only public sector company in the field of Life insurance. The basic concept of life insurance is widely known by people whether they possess it or not. Even the privatization had induced the insurance companies to educate the individuals so that they could increase the market size. However, the decision of the individuals to go for life insurance depends on several factors. The insurance companies are continuously working on identifying these factors and catering the needs of the individuals to have them under their customer base. After all, every company whether it is private sector or public sector, tries to attain the competitive edge in the insurance sector.

Key words: Investment avenues, Tax saving, Risk coverage and Brand reputation

INTRODUCTION

The insurance is a social product devised by the humanity for mitigating the unforeseen contingencies (Chaudhary & Kiran, 2011). The insurance sector in India has evolved through a number of phases. Life Insurance Corporation of India (LIC) came into operation on 1st September, 1956 after nationalization of all the 245 companies which were engaged in life insurance business. When the LIC had been playing a monopoly in insurance sector, the Government of India started allowing private players in the year 2000 with the Foreign Direct Investment (FDI) limit of 26%. As a result, LIC had started to witness the market share to go gradually into the hands of the private sector organizations. Later in 2014, the government has increased the FDI limit from 26% to 49%. This has made the private sector organizations competitive enough to attract a significant market share from LIC. The competition among the players in life insurance made the consumers compare their preference factors on the alternatives and to go for their desired product.

OBJECTIVES

The study is focused on the objectives which are to know the customer preference on public versus private players in the field of life insurance and to identify factors which are looked into while choosing a service provider in life insurance

LITERATURE REVIEW

People's preference towards the life insurance is determined by both psychographic and demographic traits. The psychographic traits such as work ethics, religion salience, socialization preference, fatalism and assertiveness are more influential in people's preference towards life insurance. The demographic factors such as education, number of children and income are strongly influence the preference towards life insurance (J. Burnett & A. Palmer, 1984).

The most important factors that have influence on the purchase decision of the life insurance product are trust, education and income (Mureşan & Armean, 2017). On the other hand, there can be various reasons for not possessing the life insurance. They also could be either demographic or psychological. In general psychological perspective, people are afraid of instability and do not think about the long term, as they already have financial obligations. This feel of instability makes the people whether to have life insurance and possible early surrender or to keep the money with the bank (Ianc, 2016).

It is evident that individual insurance agents are the major source for getting new consumers into the life insurance industry (Chaudhary & Kiran, 2011). According to Insurance Regulatory and Development Authority (IRDA), the high growth rate of the insurance sector, especially in life insurance has been caused by the individual agent channel which is considered as a bridge between consumer and the insurance company (Bawa & Chattha, 2016). At the same time, the performance of the agent certainly affects satisfaction of the consumers, but is balanced against the perceived performance of the core service (Crosby & Stephens, 1987). In a study conducted in India, it is found that the consumers are being misinformed by the life insurance agents, as they are in a position to work for the incentives and bonuses than ethical conduct of business. This sketches a bleak picture of the insurance industry

In recent years, the traditional insurance agent approach is slowly replaced by the internet. Several websites are in place to sell the insurance products. Using the modern technology increases the efficiency in terms of reaching the customers, as the real time information is provided to the customers in real time (Ovidiu-Ilie, 2012). The growth of internet technology has made the consumers review the alternatives at their convenience and arrive at the purchase decision. As a result, numerous sites have evolved for servicing the purpose of price comparison. The growth of these sites has significantly made the market more competitive (Brown & Goolsbee, 2002). The spread of internet usage from 1995 to 1997 appears to have reduced term life prices by about 8-15 percent (Brown & Goolsbee, 2002).

Countries which have a more competitive environment attract more insurance companies to operate and have higher levels of insurance demand (Mitra, 2017). Life insurance companies have experienced a dramatic narrowing in the safety margin between their earning power and the level of promised returns. There has been an imbalance between the asset side and the liability side. As a result, the interest rate guarantees issued with traditional participating life insurance policies have become particularly valuable to policyholders. This has threatened the consumers

with the solvency of the issuing companies. Establishing the bonus practices and the fact that some contracts have been issued with an option to surrender the policy before maturity have made the situation worse (Grosen & Løchte Jørgensen, 2000).

The service providers lack an in-depth insight into customer preferences. There is a gap between what customers want and what service providers offer. This is particularly true in case of services like life insurance because of the intangibility element associated with it (Siddiqui & Sharma, 2010).

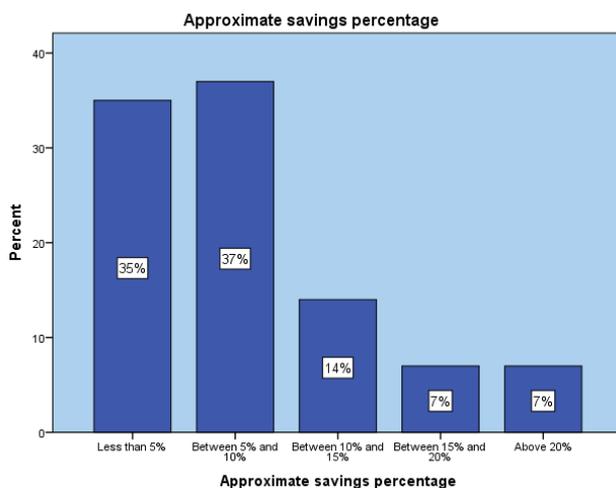
When it comes to the perception of the consumers, age of the consumers significantly has impact on the service quality of the life insurance while the other demographic factors, Gender, education and income do not have any influence (Singh, Chaudhary, & Sirohi, 2014). There is a hierarchy of service quality factors in this industry. Among the various service quality dimensions in the life insurance industry, assurance is the most important determinant of service quality, followed by personalized financial planning, competence, corporate image, tangibles and technology (Siddiqui & Sharma, 2010).

RESEARCH DESIGN

The research was conducted with the help of a questionnaire which was circulated in random to many as Google forms and also in print. Totally 200 completed responses for the questionnaire were taken up for the study. The research is descriptive in nature.

DATA ANALYSIS

The saving percentage is the portion of the income which contributes to the investments in various avenues including the life insurance. However, it is important to understand if the saving percentage is influenced by any of the factors. The chart shows the saving percentage of the respondents. Approximately, 72% of the respondents save 10% or less out of their income. Only 28% of the respondents save above 10% of their income.



The Mann-Whitney U test for the analyzing the relationship between the marital status and the saving percentage reveals that there is no significant relationship between those variables, as the significance is value is 0.641. The table given below explains this.

Test Statistics	
	Approximate Savings Percentage
Mann-Whitney U	1028.000
Wilcoxon W	1556.000
Z	-.467
Asymp. Sig. (2-tailed)	.641
a. Grouping Variable: Marital Status	

The relationship between the average household income and the saving percentage has been analyzed using Kendall’s Tau and Spearman’s correlation. The results are mentioned in the below table. Both tests reveal that there is a significant weak positive correlation between the average household income and the saving percentage. The Kendal’s Tau-C is 0.233 and the Spearman’s correlation coefficient is 0.305. This explains that the saving percentage moves along with the household income in the same direction.

Symmetric Measures					
		Value	Asymp. Std. Error ^a	Approx. T ^b	Approx. Sig.
Ordinal by Ordinal	Kendall's tau-c	.233	.071	3.264	.001
	Spearman Correlation	.305	.089	3.171	.002 ^c
Interval by Interval	Pearson's R	.384	.096	4.116	.000 ^c
N of Valid Cases		100			
a. Not assuming the null hypothesis.					
b. Using the asymptotic standard error assuming the null hypothesis.					
c. Based on normal approximation.					

In similar way the relationship between the level of education and the saving percentage has been analyzed and the results are given below.

Symmetric Measures					
		Value	Asymp. Std. Error ^a	Approx. T ^b	Approx. Sig.
Ordinal by Ordinal	Kendall's tau-c	.080	.074	1.076	.282
	Spearman Correlation	.113	.103	1.122	.265 ^c
Interval by Interval	Pearson's R	.129	.108	1.290	.200 ^c
N of Valid Cases		100			
a. Not assuming the null hypothesis.					
b. Using the asymptotic standard error assuming the null hypothesis.					
c. Based on normal approximation.					

This shows that the education level of the respondents do not have any significant relationship with the saving percentage.

Be it any kind of investment, the investment type and patterns varies among the individuals. Some prefer short term investment and some prefer long term investments. At the same time, some prefer recurring investment and some prefer onetime investment. The relationship between

the income and the preferred investment type has been analyzed using the Chi-Square test. The table given below shows the results of Chi-Square test.

Chi-Square Tests			
	Value	df	Asymp. Sig. (2-sided)
Pearson Chi-Square	11.442	10	.324
Likelihood Ratio	12.507	10	.253
Linear-by-Linear Association	1.758	1	.185
N of Valid Cases	100		

From this we could see that there is no significant relationship between the annual income and the preferred investment type.

Similarly the preference towards the investment patterns recurring investment and onetime pattern is analyzed with the variables occupation and type of residence. The table shown below shows the cross tabulation between occupation and the preferred investment pattern.

Occupation * Preferred investment pattern Cross tabulation				
Count				
		Preferred investment pattern		Total
		Recurring Investment	One Time Investment	
Occupation	Self Employed	11	2	13
	Salaried in Govt. Organization	3	1	4
	Salaried in Pvt. Domestic Organization	53	14	67
	Salaried in MNC	12	4	16
Total		79	21	100

The Pearson Chi-Square value in the below table is 0.44 and the significance is 0.93 which denotes there is no significant relationship between the occupation and the preferred investment pattern.

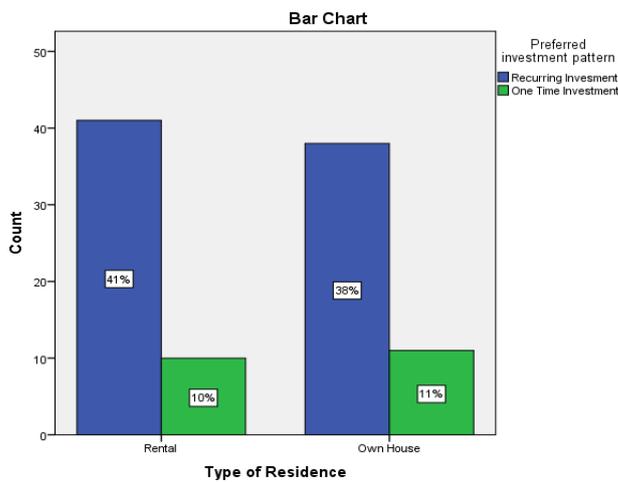
Chi-Square Tests			
	Value	df	Asymp. Sig. (2-sided)
Pearson Chi-Square	.440	3	.932
Likelihood Ratio	.451	3	.929
Linear-by-Linear Association	.321	1	.571
N of Valid Cases	100		

Similarly, there is no relationship between the type of residence and the preferred investment pattern as the significance value in the table shown below is 0.727.

Chi-Square Tests					
	Value	df	Asymp. Sig. (2-sided)	Exact Sig. (2-sided)	Exact Sig. (1-sided)
Pearson Chi-Square	.122 ^a	1	.727		
Continuity Correction ^b	.011	1	.918		
Likelihood Ratio	.122	1	.727		
Fisher's Exact Test				.808	.459

Linear-by-Linear Association	.120	1	.729		
N of Valid Cases	100				
a. 0 cells (.0%) have expected count less than 5. The minimum expected count is 10.29.					
b. Computed only for a 2x2 table					

The graph shown below depicts the similar preference towards the investment pattern irrespective of the type of residence.



While understanding the customer’s preference towards the life insurance, it is necessary to find customers’ preference towards the other investment avenues and the where the insurance stands when compared to other avenues in customers’ minds. Given below is the mean rank of different investment avenues. The lesser rank means the higher preference.

Ranks

	Mean Rank
Bank Deposits/Post Office Deposits	2.72
Insurance	3.02
Equities	3.92
Gold and other precious metals	4.11
Mutual Funds	4.32
Real Estate	4.90
Bonds by Govt. and Corporate	5.01

In this, bank deposit leads the list with highest mean rank of 2.72 whereas insurance comes in the second place with the mean rank of 3.02. This means that the customers still prefer bank deposits to insurance. This mean rank cannot be considered consensual unless we test the significance. The Kendall’s coefficient of concordance test has been performed to verify agreement among the respondents on this mean ranks.

Test Statistics

N	100
Kendall's W ^a	.162
Chi-Square	97.496
df	6
Asymp. Sig.	.000

a. Kendall's Coefficient of Concordance

The coefficient of concordance, Kendall's W is 0.162 which means that the respondents do not agree on this mean ranking. In other words, there is no significant similarity in ranking the preferred investment avenues by the respondents.

The number of life insurance policies possessed by the individuals denotes the awareness of the individuals with respect to life insurance. To understand whether a particular gender possesses more life insurance policies than the opposite gender, the Mann-Whitney U test has been conducted. The result of the test is shown in the table.

Ranks				
	Gender	N	Mean Rank	Sum of Ranks
No. of life insurance policies - Self	Female	51	48.85	2491.50
	Male	49	52.21	2558.50
	Total	100		

Test Statistics^a	
	No. of life insurance policies - Self
Mann-Whitney U	1165.500
Wilcoxon W	2491.500
Z	-.628
Asymp. Sig. (2-tailed)	.530
a. Grouping Variable: Gender	

Here the significance value is 0.53 and this makes clear that the gender doesn't have any influence over the number of life insurance policies possessed by the individuals.

In the same manner, it is also necessary to analyze the total number of insurance policies in the household. Since, this analyses is carried out on the entire household, the dependent variable should also represent the entire household. In order to satisfy this, the average household income is considered for this test. The relationship between the household income and the number of life insurance policies in the household has been analyzed using the Kruskal-Wallis's H Test. The test statistics are given below.

Ranks			
	Average Annual Household Income	N	Mean Rank
Total no. of life insurance policies - Family	Upto 2 Lakh Rupees	25	49.36
	Between 2 Lakh and 4 Lakh Rupees	35	43.47
	Between 4 Lakh and 6 Lakh Rupees	15	50.13
	Between 6 Lakh and 8 Lakh Rupees	12	46.96
	Between 8 Lakh and 10 Lakh Rupees	6	67.25
	Above 10 Lakh Rupees	7	82.21
	Total		100

Test Statistics^{a,b}	
	Total no. of life insurance policies - Family
Chi-Square	13.104
df	5
Asymp. Sig.	.022
a. Kruskal Wallis Test	
b. Grouping Variable: Average Annual Household Income	

The result shows the significance value of 0.22 which means that there is a significant relationship between the level of income and the number of life insurance policies in the household. In other words, the increase in household income significantly results in the higher number of life insurance policies in the household.

The frequency of premium is an important factor which the customers consider while opting of the life insurance. The preference on the frequency of premium could be dependent on various factors. The relationship between the level of income and the preferred frequency of premium is tested using Kendall's Tau.

Average Annual Household Income * Preferred frequency of insurance premium payment Cross-tabulation					
Count					
	Preferred frequency of insurance premium payment				Total
	Monthly	Quarterly	Biannual	Annual	
Upto 2 Lakh Rupees	4	12	3	6	25
Between 2 Lakh and 4 Lakh Rupees	9	11	4	11	35
Between 4 Lakh and 6 Lakh Rupees	2	5	3	5	15
Between 6 Lakh and 8 Lakh Rupees	3	4	2	3	12
Between 8 Lakh and 10 Lakh Rupees	0	1	3	2	6
Above 10 Lakh Rupees	0	1	2	4	7
Total	18	34	17	31	100

Symmetric Measures					
		Value	Asymp. Std. Error ^a	Approx. T ^b	Approx. Sig.
Ordinal by Ordinal	Kendall's tau-c	.146	.075	1.948	.051
	Spearman Correlation	.180	.092	1.812	.073 ^c
N of Valid Cases		100			
a. Not assuming the null hypothesis.					
b. Using the asymptotic standard error assuming the null hypothesis.					
c. Based on normal approximation.					

Even though there appears to be a moderate relationship between the annual household income and the preferred frequency of premium in the cross tabulation table, the significance values of Kendall's Tau-C, 0.51 and Spearman's Correlation, 0.73 denote that the relationship is not significant.

The tenure of the life insurance is the duration up to which the premium should be paid by the customers. In this study the information on the preferred tenure of the insurance was collected from the respondents. The relationship between the age of the respondents and the preferred

tenure has been tested using Pearson correlation. In the below table, the Pearson Correlation coefficient is -0.071 and the significance value is 0.483. Hence, there is no relationship between the age and the tenure of the life insurance preferred by the respondents.

Correlations

		Preferred Tenure of life insurance (in years)
Age (in years)	Pearson Correlation	-.071
	Sig. (2-tailed)	.483
	N	100

One of the important post purchase factor that could be an added advantage for the customers is the mode of payments. The customers are provided with many options to pay the insurance premiums such as collection by an agent, payment at branches, online/In-App payments, ECS/Auto debit. The table given below shows the percentage of percentage of respondents preferring each mode of payment.

Preferred Mode of Payment		Percentage
Collection by Agent		15.0
Payment at Branches		11.0
Online/In-App Payments		51.0
ECS/Auto Debit		23.0
Total		100.0

The preference on certain mode of payment may be influenced by the nature of occupation, as the occupation can influence certain activities of the individuals. The relationship between the occupation and the preference towards the mode of premium payment has been measured using Cramer’s V. The table shown below has the test results.

Symmetric Measures

		Value	Approx. Sig.
Nominal by Nominal	Phi	.293	.475
	Cramer's V	.169	.475
N of Valid Cases		100	

Here, the Cramer’s V value is 0.169 and significance value is 0.475 which explains that there is no significant relationship between the occupation and preference towards the mode of premium payments.

Similarly, the relationship between the household income and the preferred mode of payment has been tested using Cramer’s V and the Cramer’s V value is 0.320 and the significance value is 0.804. Hence, the there is no relationship between household income and the preference towards the mode of payment.

Symmetric Measures

		Value	Approx. Sig.
Nominal by Nominal	Phi	.320	.804
	Cramer's V	.185	.804
N of Valid Cases		100	

The insurance companies are keeping up with the technology advancements. Almost all the insurance companies, both private sector and public sector companies have introduced the mobile apps for enabling the customers easy access to their products and services. The respondents were asked the question about the availability of the mobile apps by their life insurance companies. Given below is the summary of the responses.

Mobile App Availability

	Percentage
Yes	37.0
No	24.0
I don't know	39.0
Total	100.0

Here 37% of the respondents confirm that their insurance company has dedicated mobile apps for the life insurance. These respondents were also asked whether they are using the mobile apps for their transactions and other insurance related activities. The summary of the responses is given below.

Using Mobile App

	Count	Percentage
Yes	16	43.2
No	21	56.8
Total	37	100.0

Out of the 37 respondents, only 16 are using the mobile apps of their insurance companies. This confirms that only 16% of the total respondents are using the mobile apps provided by the insurance companies for their life insurance transactions and other activities.

One of the financial aspects of the life insurance is the tax saving. Some opt for the life insurance for the purpose of tax saving. In the table given below, the result shows that 36% of the respondents opt for the life insurance only for the purpose of saving tax.

Life Insurance for tax saving

	Count	Percentage
Valid Yes	36	36.0
No	64	64.0
Total	100	100.0

At the same time, it doesn't mean that the remaining 64% of the respondents do not use the benefit of tax saving. They can be using the benefit, however they may not consider that the tax saving is the sole purpose or they may exceed the tax exemption limit.

The reason why 34% of the respondents opt for the insurance for the purpose of tax saving can found by identifying the underlying phenomenon. In order to do this a cross-tabulation has been drawn between the level of household income and the tax saving purpose.

Average Annual Household Income * Life Insurance for tax saving Cross-tabulation

Average Annual Household Income	Life Insurance for tax saving		Total
	Yes	No	
Up to 2 Lakh Rupees	8	17	25
Between 2 Lakh and 4 Lakh Rupees	6	29	35

Between 4 Lakh and 6 Lakh Rupees	8	7	15
Between 6 Lakh and 8 Lakh Rupees	7	5	12
Between 8 Lakh and 10 Lakh Rupees	3	3	6
Above 10 Lakh Rupees	4	3	7
Total	36	64	100

It is understood from this table that 25% of the respondents are below the taxable income and most of them do not consider the life insurance as a tax saving element. Even in the income category between 2 lakh rupees and 4 lakh rupees, the respondents are not considering the tax saving element. This is because the household income could be possibly inclusive of the income of more than one individual. In such case the taxable income of each individual could be below the taxable limit. The consideration of the tax saving element changes, when the household income level increases. To confirm this influence, Cramer’s V association test has been performed testing the relationship between the annual household income and considering the life insurance for tax saving.

Symmetric Measures

		Value	Approx. Sig.
Nominal by Nominal	Phi	.346	.035
	Cramer's V	.346	.035
N of Valid Cases		100	

The Cramer’s V value is 0.346 and the significance value is 0.035. Hence, there exists a significant moderate relationship between the household income and the consideration of the life insurance as the tax saving element.

Factor Analysis and SEM

The exploratory factory analysis has been performed to identify the underlying relationship between the measured variables i.e. the preference with respect to reliability, return, claim settlement history, risk coverage, brand reputation and ease of premium payment. The extraction method, maximum likelihood has been used as it would easily make way for carrying out the Confirmatory Factor Analysis using AMOS.

KMO and Bartlett's Test

Kaiser-Meyer-Olkin Measure of Sampling Adequacy.		.738
Approx. Chi-Square		168.370
Bartlett's Test of Sphericity	df	15
	Sig.	.000

Kaiser-Meyer-Olkin measure of sampling adequacy 0.738 is sufficient enough for carrying out the factor analysis. Also, the Bartlett’s Test of sphericity shows the significance of 0.

Goodness-of-fit Test

Chi-Square	df	Sig.
9.813	4	.044

Two factors have been extracted out of the six variables using the maximum likelihood method and Obliman rotation with Kaiser Normalization.

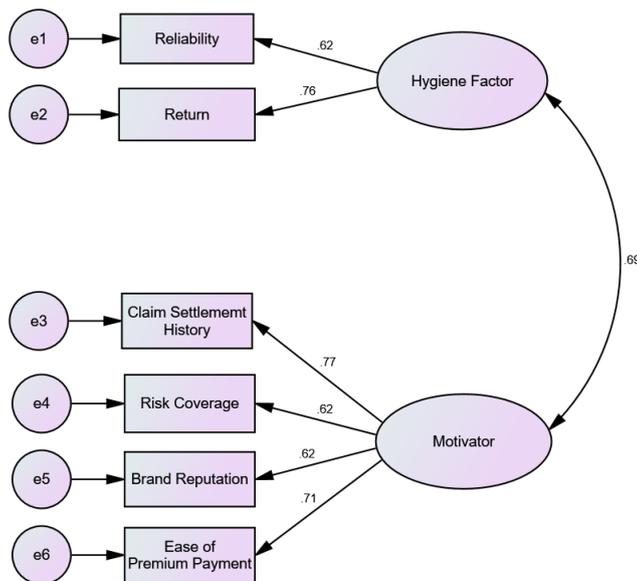
Structure Matrix

	Factor	
	1	2
Preference - Reliability	.951	
Preference - Return	.558	
Preference - Claim Settlement History		.756
Preference - Risk Coverage		.619
Preference - Brand Reputation		.627
Preference - Ease of Premium Payment		.725

Extraction Method: Maximum Likelihood.

Rotation Method: Oblimin with Kaiser Normalization.

Based on the results of Exploratory Factor Analysis, the Confirmation Factor Analysis (CFA) has been performed using AMOS. The two factors have been named as hygiene factor and motivator.



The study also reveals that considering the hygiene factor, the public sector life insurance companies are preferred and considering the motivator, both public sector and private sector companies are more or less equally preferred.

SUGGESTIONS AND CONCLUSION

Reliability and returns being seen as hygiene factors, insurance companies have to concentrate on reassuring the same to the customers to have continued patronage and to for word of mouth publicity. Awareness programs are to be conducted on the benefits of saving so that more saving habits to be inculcated. With more and more digitalization of payment, insurance companies can come up with mobile apps which would facilitate premium payment. The service of a post letter

as a reminder to pay premium is offered by LIC, to reduce paper work, an email or a sms or an application alert could be sent instead. Insurance companies should frame and come up with tax saving policies which will lure more customers to get roped into insurance. A similar study on the non-life insurance could be conducted to check if the customer preferences vary from life to non-life insurance.

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