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Factors influencing buying behaviour of consumers in life insurance sector: A survey

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Abstract: In the life of a person, risk and uncertainties accompanies throughout the lifespan. Usually everyone has a desire of getting a secure future, and this need can be fulfilled by life insurance services. Life Insurance sector plays an important role in economic as well as social development of the country. In most of the countries life insurance sector is growing at a fast rate. From past few decades, the concept of life insurance penetration has gained excessive attention. It has been observed that, many countries are homogenous in terms of demography, development and economy but in the case of Asia there is heterogeneity among population on basis of aforementioned categories. So, to target life insurance policy in countries of later category, the insurance company should have a proper knowledge about the demography, development and the behaviour of the consumers residing within the country. The focus of this study is to understand the overall impact of different factors that influences consumer's behaviour towards the demand of life insurance policy. It is observed that, some factors have strong positive influence like income, education, employment while some have negative influence like price of policy, social security and tax. However, the overall understanding of factors is arbitrary because few factors such as wealth, inflation, culture, religion etc. impacts the behaviour in both positive and negative way.

Keywords: *Consumer behaviour, life insurance determinants, life insurance demand.*

Introduction

Life insurance is different from other type of insurances because other type of insurances provide protection only against financial loss whereas life insurance serves the dual purpose of financial security and long-term saving. Although the importance of life insurance policy is well known, the role of factors that are affecting the demand of life insurance either in negative way or positive way needs to be analysed thoroughly.

In this study, various research papers are examined to find out the main factors or determinants affecting demand for life insurance. The remaining of the paper is organised as follows: In section 2, the determinants impacting demand for life insurance are classified into different categories. Finally, the paper is concluded in section 3.

Literature Review

Economic Factors

Money is considered as one of the most important factors that is required to buy life insurance policy, which is a part of economic factor. Economic factors include income, wealth, inflation, taxation. The impact of these factors on life insurance demand is examined in the sub-sections.

Income

Generally, in a family there is one income earner and the other family members are his/her dependents. If the sole earner of a family dies prematurely then his/her dependents may suffer financial crisis. So there is a need of life insurance as it reduces financial risk for his/her family and also secures the future of his/her family (Browne and Kim 1993). It has been observed that, people with high personal disposable income are more likely to buy financial security instruments.

So, it can be asserted that, increase in income raises the chances or probability to purchase the life insurance policy (Fortune 1973; Campbell 1980; Burnett and Palmer 1984; Truett and Truett 1990; Showers and Shotick, 1994; Browne and Kim 1993; Outreville 1996; Redzuan, Abdul Rahman and Aidid 2009; Curak and Gaspic 2011; Yazid et al. 2012).

Wealth

Besides current income, people also have wealth as the source of fund. As wealth increases the sense of security increases as the family or dependents feel more financially secure in case of death or any disablement to income earner. Fortune (1973) has found that as wealth increases the tendency to risk aversion decreases because the wealth act as financial security/preventive asset in the event of economic loss to the family hence reduces the demand for life insurance. So there is negative relation between wealth and life insurance demand as to overcome the economic crisis in a family wealth act as catalyst (Campbell 1980).

But life insurance demand can also be positively related to wealth as life insurance acts as good investment tool and also provides the liquid reserves to insured person/dependents (Black and Skipper 1994; Hau 2000).

Inflation

Another factor that influences life insurance demand is inflation. Some studies found a negative relation between inflation and demand for life insurance (Fortune 1973; Yazid et al. 2012) while some studies have found that there is varying relation between the demand for life insurance and inflation (Browne and Kim 1993; Hofflander and Duvall 1967; and Outreville 1996). On the other hand, Hofflander and Duvall (1967) found that to study the demand for life insurance in context of inflation has two aspects namely income-effect and substitute-effect.

First is Income-effect and it argues that increase in inflation increases the cost of living hence reduces the real income of a person and thus he reduces his demand for goods and services to overcome the burden of inflation. Therefore, demand for life insurance decreases due to increase in inflation because the policyholder cannot pay the premium. Second is substitute-effect which argues that the demand for life insurance increases as inflation increases. It is due to the expectancy of inflation to rise in future. So the consumer will buy more life insurance to secure the future of his dependents if he dies prematurely because in future increment in cost of living is certain to happen.

Tax

As income increases the payable tax of an individual also increases. Insurance premium expenditure provides tax allowance (Black and Skipper 1994). Tax allowance enables high income earners to reduce their payment in income tax. This characteristic increases the demand for life insurance (Black and Skipper 1994).

Additionally, insurance benefits are exempt from tax. So, life insurance act as important long term saving instrument and retirement benefit (Black and Skipper 1994). Hence there is a positive relation between tax and life insurance demand.

Price of life insurance policy

Price of life insurance is calculated using three factors namely mortality table, interest rate and expenses of the insurance company. By estimating all the three factors, the premium price is calculated that the policy holder has to pay. If the premium amount is low, then the demand for life insurance will be more because more people can afford it (Browne and Kim,1993). But if the premium amount is high, then the life insurance demand is expected to fall. Hence there is negative relation between price of life insurance and demand for life insurance (Mantis and Farmer 1968; Browne and Kim 1993).

Sociocultural factors

The factors which describe a society are known as sociocultural factors. They include religion, culture, values, social class, reference groups and family.

Culture and religion

The demand of life insurance is also affected by the cultural values of persons of a region or country. Cultural beliefs vary greatly from place to place like in many Asian countries life insurance is considered as saving instrument (Black and Skipper 1994).

Demand for life insurance has some influence by religious principles of people (Zelizer 1983; Browne and Kim 1993; Outreville 1996). Demand for life insurance vary across countries due to different religions (Beck and Webb 2003).

In the olden times the preachers of various religions were against life insurance. They thought that life insurance is to safeguard life of a person and it contradicts the faith that God protects the life of each and every person on earth. So, up to 19th century life insurance was banned in many European countries (Zelizer 1983). Moreover, it is believed that the life insurance benefit is a kind of money in exchange of life of insured person so it is considered as immoral (Zelizer 1983). Hence in various Islamic countries the demand for life insurance is less than that of non-Islamic countries (Browne and Kim, 1993; Outreville 1996).

Social security

It is found in various studies that social security acts as important economic support for family (Black and Skipper 1994). Hence social security has negative impact on demand for life insurance (Rose and Mehr 1980; Beenstock et al. 1986; Ward and Zurbruegg 2002; Li et al. 2007). Duker (1969) found that the demand for life insurance is less in a family having working female spouse as compared to the family having non-working female spouse. Hence higher the social security benefits, lower will be the demand for life insurance (Duker 1969; Beenstock et al. 1986; Browne and Kim 1993).

Demographic factors

The demographic factors are particular features of a population and helps in categorising a population on the basis of these factors. This factor includes age, gender, education level, income level, marital status, occupation.

Age

Age has positive relation to demand for life insurance (Showers and Shotick 1994; Truett and Truett 1990; Yazid et al. 2012). The reason behind this is as age increases people are more concerned about their future. A person tries to plan the source of income for future after retirement. Also at higher age people are more aware about life insurance. So the demand for life insurance increases in a positive way with age.

Education

It is found that highly educated people buy life insurance frequently compared to less educated people because educated people are more aware about insurance products and they hold an ability to analyse and compare different types of life insurance products, and they also want their dependents to be secure against risk compared to uneducated ones (Truett and Truett 1990). Hence there is positive relation between education and the demand for life insurance (Ferber and Lee 1980; Burnett and Palmer 1984; Truett and Truett 1990; Brown and Kim 1993; Hau 2000; Hwang and Gao 2003; Curak and Gaspic 2011; Yazid et al. 2012). Not only the education level of income earner but the education level of family members also has positive effect towards demand for life insurance (Browne and Kim 1993; Curak and Gaspic 2011).

Employment status

Employment status is another factor that affects positively towards demand for life insurance (Black and Skipper 1993). It is because people having employment means they have continuous income so they can buy life insurance whereas unemployed person cannot buy life insurance (Mantis and Farmer 1968). Likewise, higher level of employment signifies high status due to this people are more aware about life insurance and show more concern towards protecting the future of their family members. Hence, there is positive relation between employment and life insurance demand (Mantis and Farmer 1968; Black and Skipper 1993; Yazid et al. 2012)

Number of dependents

Number of dependents of a person are the members that depends on the income of the earner in a family. It has been observed that this factor plays vital role in the demand for life insurance. There is a positive relation between number of dependents and demand for life insurance (Brown and Kim 1993; Curak and Gaspic 2011). As the number of dependents increases an individual is more willing to secure their future and hence he like to spend more in life insurance (Beenstock et al.1986; Browne and Kim 1993).

Psychographic factors

Psychographic factors are also called AIO factors (attitude, interest and opinion factors). Together with demographic factors, psychographic factors provide better insight to behaviour of consumer as demographic factors tells who the consumers are and psychographic factors tells why they buy.

More educated people are risk averters as they have more knowledge about confronting the risk, hence they demand more life insurance (Outreville 1996). Burnett and Palmer (1984) found that the people who buy more life insurance policies are risk takers while those who buy low amount of life insurance policies are risk averters. The persons who freely express

Table 1: Impact of three major determinants on the demand of life insurance

Major factors	Sub factors	Impact on life insurance	References
Economic factors	Income	Positive	Fortune 1973; Campbell 1980; Burnett and Palmer 1984; Truett and Truett 1990; Showers and Shotick, 1994; Browne and Kim 1993; Outreville 1996; Redzuan, Abdul Rahman and Aidid 2009; Curak and Gaspic 2011; Yazid et al. 2012
	Wealth	Negative/ positive	Fortune 1973; Campbell 1980; Black and Skipper 1994; Hau 2000
	Inflation	Negative/ positive	Hofflander and Duvall 1967; Browne and Kim 1993; Outreville 1996
	Tax	Positive	Black and Skipper 1994
	Price of policy	Negative	Mantis and Farmer 1968;Browne and Kim,1993
Sociocultural factors	Culture and religion	Positive/ negative	Browne and Kim, 1993; Outreville 1996;Zelizer 1983; Burnett and Palmer 1984
	Social security	Negative	Duker 1969; Rose and Mehr 1980; Beenstock et al. 1986; Browne and Kim 1993;Ward and Zurbruegg 2002; Li et al. 2007
Demographic factors	Age	Positive	Showers and Shotick 1994; Truett and Truett 1990; Yazid et al. 2012
	Education	Positive	Ferber and Lee 1980; Burnett and Palmer 1984; Truett and Truett 1990; Brown and Kim 1993; Hau 2000; Hwang and Gao 2003; Curak and Gaspic 2011; Yazid et al. 2012
	Employment status	Positive	Mantis and Farmer 1968; Black and Skipper 1993; Yazid et al. 2012
	Number of dependents	Positive	Beenstock et al.1986; Brown and Kim 1993; Curak and Gaspic 2011
Psychographic factors	Attitude	Positive/ negative	Ferber and Lee 1980; Burnett and Palmer 1984
	Interest	Positive/ negative	Burnett and Palmer 1984
	Opinion	Positive/ negative	Burnett and Palmer 1984

opinions are opinion leaders, such people do not own more life insurance. Also individual possessing large life insurance policies are not price conscious, low information seekers, have low self-esteem and have low brand loyalty (Burnett and Palmer 1984). The people who have positive attitude towards life insurance like to save regularly and are optimistic towards life (Ferber and Lee 1980).

The factors which affect the behaviour of consumer towards opting life insurance are summarised in Table 1.

Conclusion

The factors that impact life insurance demand can be classified into four broad categories, that are economic factors, sociocultural factors, demographic factors and psychographic factors. From past few decades many researches have been conducted on this topic but still it is one of the popular research topic across the globe because of continuous change in demography, economy, development of several countries and also increase in competition among insurance companies. Due to the continuous change of these factors, most of the conclusion made in the previous researches become irrelevant.

It is found that most of the studies provide enough insight to the factors determining behaviour of consumers towards life insurance but still there are certain elements that has been overlooked such as whether the surrounding of a consumer have any impact on the demand of life insurance beside his/her religion or culture. For example, if the friends of a person hold life insurance policy and they insist or recommend that person to buy life insurance policy because it is a good saving instrument, so do that person buy life insurance policy or not even if his/her religion does not allow him/her to do so.

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