POLICY SELECTION BEHAVIOUR OF INDIVIDUAL INVESTORS TOWARDS INSURANCE POLICIES AND MARKETING STRATEGIES FOLLOWED BY INSURANCE COMPANIES

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Abstract

The Indian insurance industry underwent a drastic transformation with the entry of private players who captured a significant market share-thanks to the deregulation of the Indian insurance industry. But still the insurers had behaved, more as retail seller; the efforts of telemarketing, marketing executives, banks, brokers & agents, channel partners influenced by the financial behaviour of individual as the buyer is involved in price negotiations and other value added elements. Indian consumers have big influence of emotions and rationality on their buying decisions. Indian Economy is having a huge middle class societal status and salaried persons. Their money value for current needs and future desires sets the pendulum to move to another side which generates the reasons behind holding a policy. Also the marketing activities are focused on creating and retaining customers by making customers feel happy and providing them low cost satisfaction and value based service element.

The investors are influenced by their perception and human relates the perception to action i.e buying behaviour towards buying decision. Hence, this study has made an attempt to examine the related aspects of policy selection behaviour of individual investors towards insurance policies and marketing strategies followed by insurance companies to increase sales in Nasik city.

INTRODUCTION

India has a very strong regulatory and market management mechanism.

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Financial market reforms in India have been introduced in the early 1990s. The sustained efforts of Government and financial intermediaries have resulted in a competitive, healthy and resilient financial market. The Indian insurance industry underwent a drastic transformation with the entry of private players who captured a significant market share- thanks to the deregulation of the Indian insurance industry. But still the insurers had behaved, more as retail seller; the efforts of telemarketing, marketing executives, banks, brokers & agents, channel partners influenced by the financial behaviour of individual as the buyer is involved in price negotiations and other value added elements. But, expectations of the investors play a very vital role; Indian consumers have big influence of emotions and rationality on their buying decisions. The investors are influenced by their perception and human relates the perception to action i.e buying behaviour towards buying decision. The beliefs and actions of many investors are influenced by the dissonance effect. Before the opening of Indian market for Multinational Insurance Companies, Life Insurance Corporation (LIC) was the only company which dealt in Life Insurance and after opening of this sector to other private companies, all the world leaders of life insurance have started their operation in India. With their world market experience and network, these companies have offered many good schemes to lure all type of Indian consumers but unfortunately failed to get the major share of market. Still the LIC is the biggest player in the life insurance market with approx 65% market share. According to Kahneman and Knetsch (1992) as "People are more likely to believe that something they own is better than something they do not own". They believe in future rather than the present and desire to have a better and secured future, in this direction life insurance services have its own value in terms of minimizing risk and uncertainties. Indian economy is developing and having huge middle class societal status and salaried persons. Their money value for current needs and future desires here the pendulum moves to another side which generate the reasons behind holding a policy. As well as the marketing activities are focused on creating and retaining customers by making – customers feel happy and low cost satisfaction and value based service element.

However, there is no model which explains the influence of these "perceptions" and "beliefs" or Expectations on Decision making. Because of our own inability to understand the sources of motivations and the basis of these expectations we tend to ignore it. We can borrow concept from social psychology where behavioural patterns, rational or irrational, are developed and empirically tested. On the same line we can certain model to test the buying behaviour, to the extent of the availability of the explanatory variables. Such models can help to understand the why? how? aspect of investor behaviour, which can have managerial implication for insurance companies in designing marketing strategies.

STATEMENT OF THE PROBLEM

The beginning of insurance business is traced in the London city. It was started with marine business. In India, insurance started with life insurance. It was in the early 19th Century. In 1956, life insurance business was nationalized and LIC of India came into business and enjoyed monopoly till 1999 as private insurance companies started their operation in India. Private players captured a significant market share; thanks to the deregulation of the Indian insurance industry. But still the insurers had behaved, more as retail seller; target small investors, salaried people and others who wanted to satisfy individual's future goal. The efforts of telemarketing, marketing executives, banks, brokers & agents, channel partners influenced by the financial behaviour of Individual. And there is a saying, 'life insurance is sold, not bought'. Marketing No specific study has been done regarding the investor behavioural aspect with specific reference to Insurance policies. Unless the Insurance policies are tailored to the changing needs, and unless the Insurance companies understand the Policy selection/switching behaviour of the individual, survival of companies will be difficult in future. With this background an attempt is made in this paper to study the factors influencing the policy selection behaviour of retail investor and help the insurance companies to increase their penetration in retail segment in India.

REVIEW OF LITERATURE

The existing studies on behavioural Finance are very few and very little in India as compared to the developed market. The information available about investor perceptions, preferences, attitudes and behaviour is very little. The literature review reveals investors behaviour towards the policy selection studies, as follows:

Daniel Kahneman and Amos Tversky, (1979) originally described "Prospect Theory" and found that individuals were much more distressed by prospective losses than they were happy by equivalent gains. Some economists have concluded that investors typically consider the loss of $1 twice as painful as the pleasure received from a $ gain. Individuals will respond differently to equivalent situations depending on whether it is presented in the context of losses or gains. Tversky and Kahneman presented groups of subject with a number of problems. One group of subjects was presented with this problem.

1. In addition to what you own, you have been given $1000. you are now asked to choose between

   A. Sure gain of $500.

   B. 50 % chance to gain $1000 and a 50 % chance to gaining nothing.

Another group of subjects were presented with another problem.

2. In addition to whatever you own, you have been given $2000. you are now asked to choose between :

   A. A Sure loss of $500.

   B. 50 % chance to lose $1000 and 50 % chance to lose nothing.

In the first group 84 % choose A. In the second group 69 % choose B. the two problems are identical in terms of net cash to the subject; however the phrasing of the question causes the problem to be interpreted differently.

Phillip Kotler, (1995) reported that there is a change in financial decision making and investor behaviour as a result of participating in investor education programmes sponsored by employees.

Philip Kotler, (1973) considers insurance to be in the category of "unsought goods," along with products such as preventive dental services and burial plots. He notes that unsought goods pose special challenges to the marketer.

Michael L. Walden, (1985) told that the option's package view of the whole life insurance policy suggests that a whole life policy is a package of options, each of which has value and is expected to influence the price of the policy. This viewpoint implies the general hypothesis that price differences between whole life policies can be explained by differences in policy contract provisions and differences in selected company characteristics. The option's package theory was empirically investigated using regression analysis on data from a sample of policies marketed in North Carolina. The results suggest support for the options package theory.

De Bondt and Thaler, (1985) while investigating the possible psychological basis for investor behaviour, argue that mean reversion in stock prices is an evidence of investor over reaction where investors overemphasis recent firm performance in forming future expectations.

Amy Wong, (2004) empirically examined the role of emotional satisfaction in service encounters. Specifically, this study seeks to: investigate the relationship between emotional satisfaction and key concepts, such as service quality, customer loyalty, and relationship quality, and clarify the role of emotional satisfaction in predicting customer loyalty and relationship quality. In doing so, this study used the relationship between emotional satisfaction, service quality, customer loyalty, and relationship quality as a context, as well as data from a sample survey of 1,261 Australian retail customers concerning their evaluation of their shopping experiences to address this issue. The results show that service quality is positively associated with emotional satisfaction, which is positively associated with both customer loyalty and relationship quality. Further investigations showed that customers' feelings of enjoyment serve as the best predictor of customer loyalty, while feelings of happiness serve as the best predictor of relationship quality. The findings imply the need for a service firm to strategically leverage on the key antecedents of customer loyalty and relationship quality in its pursuit of customer retention and long term profitability.

Helmut Gründl, Thomas Post, Roman Schulze, (2005) found that demographic risk, i.e., the risk that life tables change in a nondeterministic way, is a serious threat to the financial stability of an insurance company having underwritten life insurance and annuity business. The inverse influence of changes in mortality laws on the market value of life insurance and annuity liabilities creates natural hedging opportunities.

Shankar, (1996) points out that the Indian investors do view Mutual Funds as commodity products and AMCs, to capture the market should follow the consumer product distribution model.

Shanmugham, (2000) conducted a survey of 201 individual investors to study the information sourcing by investors, their perceptions of various investment strategy dimensions and the factors motivating share investment decisions, and reports that among the various factors, psychological and sociological factors dominated the economic factors in share investment decisions.

OBJECTIVES OF THE STUDY

1. To develop and standardize a measure to evaluate investment pattern in life insurance services.
2. To evaluate the factors underlying consumer perception towards investment in life insurance policies.
3. To develop the marketing strategies that leads to investor buying behaviour and decision making.
4. To compare the differences in consumer perception of male and female consumers.
5. To open new vistas for further researches.

RESEARCH METHODOLOGY

The Study: The study was exploratory in nature with survey method being used to complete the study.

Sampling Design

Population:

Population included investors in Nasik City.

Sample frame:

Since the data was collected through personal contacts, the sample frames were the individuals who were investing in life insurance policies.

Sampling elements:

Individual respondents were the sampling elements.

Sampling Techniques:

Purposive sampling technique was used to select the samples.

Sample Size:

Sample size was 150 respondents.

Framework of Data Collection

Self designed questionnaire was used for the evaluation of factors affecting consumer's perception towards insurance.

Framework of Data Analysis

To understand the savings avenue preference, scheme preference and objectives for investment in Insurance policy, and to identify the information sources influencing policy selection, and the preferred mode of communication, the respondents were asked to rank their preferences on a ranking scale. The ranks were ascertained by obtaining the weighted mean value of the responses. To identify the factors that influence the investors policy selection, 26 variables were identified through a brainstorming session and evidence from past research prior to the construction of the questionnaire at the time of the pilot study. Based on theory, past research, and judgment of the researcher, the factors that could influence the investors in their selection of insurance policy, 26 variables were identified and classified as under:

V.1. Awareness about terms and conditions of policy.

V.2. Provide services on time.

V.3. Provide satisfactory services.

V.4. Goodwill of the company.

V.5. Agent is well informed about policies.

V.6. Co-operative and friendly agent.

V.7. Agent respond promptly

V.8. Proper reminders of installments by agents.

V.9. Employees responsible towards customers

V.10. Benefits are met by policy.

V.11. Selection of highly reputed company.

V.12. Reputation of the insurance company.

V.13. Hassle free settlements

V.14. Personal attentions on every costumer.

V.15. Understand Customer's financial needs.

V.16. Fulfill its promise towards policy.

V.17. Provides the claims on time.

V.18. Settlement of claims easy and timely.

V.19. Satisfy with relationship to company.

V.20. Company able to fulfill expectation.

V.21. Only company I want to associate myself.

V.22. Purchase more policies from the same company.

V.23. Suggest friends and family to purchase policy from the same company.

V.24. Policy benefits benchmarks.

V.25. Investment in life insurance is more secure than stock market.

V.26. Purchase further policies from other companies.

In the survey, the respondents were asked to rate the importance of the 26 specified variables on a 7 point scale ranging from Highly Important (7) to Not at all important (1).

FINDINGS OF THE STUDY

1. Savings objectives of Individual Investors

Savings objective of the majority of individual investors is to provide for retirement, thus throwing light on the nature of risk averse investors. Insurance companies can attract investor by designing product for risk averse investors.

2. Savings Instrument Preference among Individual Investors

Asset preference pattern of investors provides an insight into the investment attitude of investors, which will influence the policy formation for garnering the individual savings. The study reveals that pension plan is the most popular plan.

3. Current Attitude of individual Investors towards the Following Financial Instruments.

Every asset class has different characteristics, stocks have the potential to provide high total returns with proportionate level of risk, while bonds may provide lower risks along with regular income. The attitude of every individual investor may be influenced by their investment goal, risk tolerance, time horizon, personal circumstances or performance aspect of the asset class.

Shares were rated as favorable; bond, debenture were rated in the somewhat favorable category. The Insurance industry has evolved in many aspects i.e. product innovation, distribution reach, investor education or leveraging technology for enhancing service standard. As ULIP is an ideal vehicle for both debt and equity product, it has the potential to emerge as one of the major products.

4. Insurance Policy Preference among Individual Investors.

Investors have a plethora of options ranging from term plan to pension plan. Now a days investors are not offered just plain vanilla but a basket (ULIP) to tune with their risk appetite.

5. Preferential Features in Insurance Policy among Individual Investors.

The study shows that the investors' need for good return is the highest among other features, followed by safety, liquidity, tax benefit, capital appreciation, professional management, value added services, claim settlement, and diversification of benefits.

6. Insurance Conceptual Awareness Level of Individual Investors.

Investors, while taking their investment decisions use unique internal characteristics (influenced by their cognitive domain) and also yield to the environmental pressures of the external financial markets. 'Awareness' belongs to the cognitive domain. Hence, it is essential for the Insurance Companies to know the level of awareness about Insurance Policies among the investing public. This will enable them to create an external environment that can influence decisions of investors. The study reveals that the general awareness level among individual investors of the concept and functioning of insurance is good.

The number of respondents who have good awareness level of insurance results to 53%. This could be attributed to the wide publicity given to insurance industry by the media for varied reasons. However, this study was based in the city of Nasik where the awareness level may be considered high. But, the litmus test for the industry is the expansion of the distribution network to smaller urban and rural areas where most of the small investors live. The challenge would be to educate these investors about the advantages of investing in insurance compared to traditional saving instruments.

7. **Selling life insurance is difficult** – (i) Ignorance about death (ii) Supremacy of today's requirement over those of tomorrow (iii) Superstitious beliefs (iv) Leaving everything to fate (v) Notions that investments in insurance yield no returns (vi) Habit of procrastination.

8. Factors Influencing Insurance Policy selection by Individual Investors.

Factor Analysis Using Principal Component Analysis

Factor Name	Eigen Value		Variable Statements	Loading
	Total	% of Variance		
1. Company Loyalty	8.818	35.273	21. Only company I want to associate myself.	0.814
			22. Purchase more policies from the same company.	0.799
			23. Suggest friends and family to purchase policy from the same company.	0.790
			20. Company able to fulfill expectation.	0.599
			24. Policy benefits benchmarks.	0.545
2. Service Quality	2.438	9.753	13. Hassle free settlements	0.693
			9. Employees responsible towards customers	0.631
			7. Agent respond promptly	0.611
			25. Investment in life insurance is more secure than stock market.	0.563
			19. Satisfy with relationship to company	0.537
3. Ease of Procedures	1.458	5.830	17. Provide claims on time.	0.852
			6. Co-operative and friendly agent.	0.662
			18. Settlement of claims easy and timely.	0.651
			5. Agent is well informed about policies	0.486
4. Satisfaction Level	1.252	5.008	10. Benefits are met by policy.	0.774
			3. Provide satisfactory services.	0.631
			16. Fulfill its promise towards policy.	0.575
			2. Provide services on time.	0.515
			1. Awareness about terms and conditions of policy.	0.465
5. Company Image	1.219	4.878	12. Reputation of the insurance company.	0.777
			4. Goodwill of the company.	0.758
			11. Selection of highly reputed company.	0.428
6. Company-Client Relationship	1.013	4.051	8. Proper reminder of installments by agents.	0.778
			14. Personal attention on every costumer.	0.505
			15. Understand Customer's financial needs.	0.404

1. Company Loyalty

This factor includes that this is the only company the consumer wants to associate himself with, in future (0.814), suggest friends and family to purchase policy from the same company (0.790), company able to fulfill expectation, (0.599), Policy benefits benchmarks (0.545). The highest Eigen value lies in this factor 35.213. Therefore it is clear that company loyalty plays an important role in investment decisions of investors.

2. Services Quality

This factor includes hassle free settlements (0.693), employees responsible towards customers (0.631), agents respond promptly (0.611), satisfy with relationship to company (0.537). As we can see, that the Eigen value for factor service quality is 9.753, which is also a contributing factor towards the study, so it can also be considered as an important factor in the study.

3. Ease of Procedures

This factor includes the company provides claims on time (0.852), cooperative and friendly agent (0.662), settlement of claims easy and timely (0.651), agent is well informed about policies (0.486). As we can see, that the Eigen value for factor ease of procedures is 5.830 , which is also a contributing factor towards the study, so it can also be considered as an important factor in the study.

4. Satisfaction Level

This factor includes that the suggested benefits of Insurance Policy should be met to the investors(0.774), Company provides them satisfactory services (0.631), fulfill its promise about life insurance policy (0.575), Services should be provided on time(0.515), and awareness of terms and conditions of policies. As we can see, that the Eigen value for factor satisfaction level is 5.008 , which is also a contributing factor towards the study, so it can also be considered as an important factor in the study.

5. Company Image

This factor includes that the insurance company should be well known in the industry 0.777), insurance provider should have goodwill in market (0.758), and company of high repute (0.428).As we can see, that the Eigen value for factor company image is 4.878, which is also a contributing factor towards the study, so it can also be considered as an important factor in the study.

6. Company-Client Relationship

This factor includes that the agent remind about premium installments (0.778), pay personal attention on every consumer (0.505) and understand consumer's financial needs (0.404). As we can see, that the Eigen value for factor company client relationship is 4.051, which is also a contributing factor towards the study, so it can also be considered as an important factor in the study.

SUGGESTIONS

1. The survey reveals that the investors are basically influenced by the intrinsic qualities of the product followed by efficient management and general image and reputation of policy and company in their selection of fund schemes. Hence, it is suggested that Insurance Companies should design products consciously to meet the investors' needs and should be alert to capture the changing market moods and be innovative. Continuous product development and introduction of innovative products are essential to meet the triple needs of adequate returns, safety and liquidity to attract and retain this market segment.
2. Insurance Companies should segment their target customers and position their products and services based on target segment they propose to address. The target segment can be broadly divided into 'institutional segment' and 'individual investor segment'. The institutional segment can be trusts, corporate etc. The Individual segment can be young families with small or no children, middle aged people saving for retirement, retired people looking for steady income. By proper segmentation and targeting the right product to the right customer, Insurance companies can win the confidence of customers and own them for lifetime.
3. Marketing activities should be focused on creating and retaining customers by making –

- Customers know about the availability of products
- It convenient to the customer to access the products

- Customers feel that the cost vis-à-vis benefits from product is reasonable
- Customers feel satisfaction while using the product

4. It is further revealed that the investors are influenced by the infrastructural facilities of the sponsor and the reputation enjoyed by the sponsor, in their selection of the schemes. Hence, Insurance companies should take steps to develop their infrastructural facilities. Insurance companies should note that investment in the development of agency network, research and, introduction of technology in money management, will capture a segment of investors. Further, establishing a brand name and building up reputation and carefully maintaining the reputation by prudent public money management on the Gandhian principle of Trusteeship will also attract one segment of investors.
5. Further, investors are influenced by the extent and quality of disclosure of information subsequent to their investment regarding disclosure of NAV, portfolio of investment and disclosure of deviation of investment from the stated objectives and the attached fringe benefits to the policy in their selection of the policy. Hence, Insurance companies should take steps to be as transparent as possible and follow the disclosure norms spelt out by IRDA in this connection.
6. The Indian insurance industry is more lucrative with its huge untapped market. The insurance benefit and the enhanced insurance concept have to penetrate among the rural and urban poor where the mainstream products have failed to reach. The insurer should discover a distribution channel like agent, formal banks, regional rural bank, co-operative banks, NGO's, MFIS, post offices, rural knowledge centers etc. Lot of consumer education and awareness programs are needed as the rural and urban poor lives for the present and do not worry about future.
7. Since the survey reveals priority to "Self decision in scheme selection. Information dissemination through all possible routes which will reach the investors should be tapped in a cost-effective manner by insurance companies. The quality and nature of distribution channels to be utilized to reach the marketing goals is an important aspect of marketing strategy. In the present the agency force is facing the problem of demotivation, lack of technical and selling skill. The industry needs to focus on appropriate

selection, training, motivation and regular product knowledge updating of advisors.

8. Inspite of having access to Internet, investors prefer "Personal Communication" mode to "Automated Service Mode". This necessitates establishment of more manually operated service centers throughout the length and breadth of the country.

CONCLUSION

In present Indian market, the investment habits of Indian consumers are changing very frequently. To run successfully, the India Insurance companies require complete understanding of the peculiarities of the Indian Market and also an understanding of the psyche of the small investors. The individuals have their own perception towards various types of investment plans. The study focused over consumer's perception on investment towards Life Insurance Services. The objectives of the study were to evaluate the factors underlying consumer perception towards investment in insurance policies; and to evaluate and design the different marketing strategies to accomplish the desired objectives. The consumer's perception towards Life Insurance Policies is positive. It developed a positive mind-set for their investment pattern, in insurance policies. The average Indian Investor is a greenhorn when it comes to financial markets. Other observations are: lack of opportunity, lack of conceptual knowledge and influence by others in the external environment in the Indian culture. Still some sincere efforts are needed for developing insurance market. Major factors playing a role in developing consumer's perception towards Life Insurance Policies are Consumer Loyalty, Service Quality, Ease of Procedures, Satisfaction Level, Company Image, and Company-Client Relationship. Presently, more and more insurance companies are entering the industry and their survival depends on strategic marketing choices to survive and thrive in this promising industry, in the face of such cutthroat competition.

Insurance industry has to go ahead. A lot of opportunities are still waiting. This research will help in developing the market share, loyalty and further development in insurance sector.

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