

Impact of Pricing Elements on Customer Purchase Decision for Health Insurance Product

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Abstract

This research investigates the interactive effects of the product pricing on purchase decision for health insurance products. This study has tried to assess the perceptions of the health insurance product regarding impact of pricing policy on the purchase decision of the prospective policyholders. Using data collected from health insurance policyholders in the Karaikal district, the researcher to find out any possible differences in the perceptions among the respondents, especially to assess impact of their purchase decision respective pricing of the product. Finally, it was found that the pricing has impact on purchase decision. This study will go a long way in helping the health insurers to formulate a good pricing strategy to impact the consumers purchasing decision. The results offer important insights for future theory development on pricing product.

Key Words: Purchase decision, Health insurance, Product pricing, Multiple regressions.

1. Introduction

Health is an important element of human resource development. Good health is the real wealth of society. It not only enhances human efficiency but also leads to a decline in the private and public expenditure on sickness and disease. The human capital model of demand for health (Grossman, 1972) has been one of the major theoretical innovations that have emerged in this regard. This approach provides insights not only into the demand for medical care, but also into the determination of health itself. Healthcare services help to reduce infant mortality rates, check crud death rates, keep diseases under control and raise life expectancy. Improved health contributes to economic growth in four ways (World Bank, 1993). Health insurance is a type of insurance whereby the insurer pays the medical costs of the insured become illness due to covered causes or due to accidents. The insurer may be a private organization or a government agency. A health insurance policy is a contract between an insurer and an individual or a group, in which the insurer undertakes to provide specified health insurance benefit to the

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insured in consideration of a fixed price called premium payable either in lump sum or in installments. Health insurance normally provides either direct payment or reimbursement for expenses associated with illnesses and injuries. The rate of premium charged the extent of cover provided by the health insurance depends on the specific policy bought under the insurance contract between the insured and the insurer. (Yellaiah and Ramakrishna, 2012). In the case of health insurance, premium is the price which the person looking for insurance pays to the concerned health insurer to purchase a health insurance product. In the insurance business, the pricing decisions involve some factors such as: the premium charged against the policies, interest charged for defaulting in the payment of premium and credit facility, commission charged for underwriting and consultancy activities. Which they influencing the target market or prospects the formulation of pricing strategy is significant. The pricing in insurance is the form of premium rates (Dash & Khan, 2011).

Pricing is a more powerful element in the health insurance marketing strategy which hugely affects the final sale of the product. Price is the assessment placed upon the product by the health insurer. The management must take decisions regarding pricing (premium), investment return, premium level, premium mode, commission rate, insured sum amount, diseases covered, pricing strategy, under writing and price related contingencies. The cost driver is the factor whose change causes incurring of costs, i.e., the number of times the cost has been incurred. There are several studies among several issues regarding health insurance in India. However, there are very few studies involving pricing related and using survey data. There is no such empirical study in Puducherry region more particularly for Karaikal city. The present study is an attempt to fill this gap. We have organized the rest of the paper as follows: in the next section a brief conceptual background has been presented; the methodology and reliability analysis presented in the third section; in the fourth section, we present the data analysis and the multiple regression; the fifth section deals with the conclusion.

2. Conceptual Background of the Study.

2.1 Health Insurance

In this section we review the relevant empirical studies relating to health insurance and pricing related. Several studies have discussed and debated various experiments for extending health coverage and recommended micro and macro solution to achieve greater coverage (Ahuja and Narang 2005; Acharya and Ranson 2005; Gupta and Trivedi 2005; Devadasan et. al. 2004a; Devadasan et.al 2004b). Mahal (2002) has examined the entry of private health insurance. He suggested for a comprehensive and long -term perspective at issues of health insurance and health care provision in India. Gumber and Kulkarni (2000) tried to explore the availability of health insurance system for the poor especially women their needs and expectations of a health insurance system and the likely constraints in extending current health insurance benefits to workers in the informal sector. Srinivasan and Ponmuthusaravanan (2009) concluded that the income

variable had a positive influence over the probability of the purchase of health insurance. Kirigia et al (2005), in their study on developed countries claimed that individual and household level variables are important determinants of health insurance ownership. Nyaman (2002) says that the demand for health insurance is a demand for an income transfer in the event of illness.

2.2 Policy Pricing Insurance

In Booms and Bitner (1981)'s framework, the human touch is introduced to deal with the service delivery, namely the firm's personnel and other customers. In such as services of life insurance, the firm's personnel highly influence customer perceptions of the product. Berry (1984) further opined that the firm people are part of the product and hence product quality is inseparable from the quality of the service provider. After the 7's concept came to the limelight, all the elements of traditional marketing mix got a new meaning incorporating human element for service products (Rafiq and Ahmed, 1995). In life insurance has become important of service product in this century. They compared the Kotler (1976)'s 4P's model with the new 7P's model to analyse the variations developed in the elements. The pricing element is old mix involved only three sub-elements, namely, price level, discounts / allowances and terms of payments. But, the pricing element in the new mix added three more sub-elements to the existing sub-elements, namely, customers own perceived value, quality & price interaction and price differentiation. These new variables along with the existing variables were used as the items under policy pricing scale in this study (Dash, 2012). Mukherjee (2005) has mentioned about product pricing in Indian life insurance sector. In the insurance industry, with the entry of private players, advancement of technology and speed in communication, with the remotest customers also became very easy. Pricing of life insurance products plays a major role in marketing them. In this study, he has explained extensively the pricing methodology of insurance companies. Low pricing attracts the customers whereas high pricing drives them away. Therefore, competitive pricing which takes care of the interests of both the insurer and the insured should be implemented. Dash (2012) tried to assess the various elements involved in the policy pricing are outlined as: affordability of the price level, flexibility of terms and conditions, worth of its value (as anticipated by the customer), uniqueness and better than alternate policies, simple & clear price structure and discounts/incentives. This study helps in understanding the customer's view point of the various elements associated with policy pricing which will give a chance to the insurers to make a better pricing policy.

2.3 Objectives of the Study

- To examine the perceptions of customers (buyer) with respect to impact of health insurance product pricing on the customers' purchase decision.
- To assess impact of their residing locality (urban vs. rural) on their respective perceptions regarding the impact of product pricing on the customers' purchase decision.

2.4 Hypotheses

H₀₁: There is a no significant difference between the location and impact of product pricing on the customers 'purchase decision.

H₀₂: There is a no significant relationship between the income and pricing elements on health insurance.

3. Methodology

3.1 Data Collection

The data was collected from primary sources which consisted of the customers involved in health insurance marketing process. The area chosen for this above said sample population covered the Karaikal district of Puducherry. The period of data collection was last one months of 2014. Seventy one health insurance customers were interviewed in this process. These respondents were selected from both urban and rural area in order to assess the impact of residing locality on their perceptions. A well structured questionnaire was framed with questions on their perceptions of the various sub-elements involved in the health insurance policy pricing. For this purpose, a five-point scale (from 1 to 5) has been adopted with 1 being "Strongly disagree" and 5 being "Strongly Agree".

3.2 Measures for this Study

This study covers the aspect of health insurance pricing elements (Services Marketing Mix) impact on the purchase decision of the customers. The scales and various items under these scales (from the customer's viewpoints) are illustrated below:

Scale: Pricing (customers) this item only customer point of view Items:
6 [Strongly Disagree -1, Strongly Agree -5]

3.3 Items (Dash, 2012)

PR1: When buying a product, I look for the cheapest product available.

PR2: Price is the most important factor when I am choosing a product.

PR3: The pricing is unique and better compared to other alternate policies.

PR4: Different forms of payment (Cash, Credit card....)

PR5: I tend to buy the lowest-premium product that will fit my needs.

(PR = Pricing is one of the service marketing mix)

3.4 Sample Details

The study was conducted on health insurance customers located in the Karaikal city progressive district of Puducherry union territory. A sample of 90 customers was taken up who were approached personally at their work places and residence. Out of the total, 75 correctly completed the interview schedule in all respects. For choosing the sample,

non-probabilistic convenience sampling technique was used. Due to time constraint, the sample size for the customers was restricted to 71.

3.5 Data Reliability with Validity

Reliability can be defined as the degree to which consistent results are produced by the prepared scale (with repeated measures). It is that the measures are free from random error. Churchill (1979) has suggested coefficient alpha to check the internal consistency of items placed under a factor. Further, Heir et al (2006) have also suggested the alpha value to be 0.6 and above. For customers Cronbach's α were found to be 0.606, which are more than 0.6. All the items under both the scales were found to be having a loading of more than 0.5 (see table-1).

Table-3.5.1 reliability estimates with factor loadings for policy pricing

Factors	Scale Items	Factor Loadings	No. of Items	Cronbach's α
Policy Pricing (Customers)	PR1	.718	5	.606
	PR2	.834		
	PR3	.858		
	PR4	.886		
	PR5	.569		

Note- Extraction Method: Principal Component Analysis.

Rotation Method: Varimax with Kaiser Normalization.

PR: Pricing item

4. Results and Discussion

A statistical elaboration of the sample took place, and the summary on the distribution of the demographic respondents of sample are tabulated in Table. The gender distribution of the respondents was 62% males and 38% females and they are aged between 18-59 years old. The majority of the respondents were graduations (33.8%) and higher secondary (32.4%). They are annual income Rs.10, 001-15,000 (36.6%), Rs.15, 001 – 20,000 (31.0%) and Rs.5001 – 10,000 (21.1%). There was 70.4% of respondent is married. They are geographical location rural (50.71%).

4.1 Perceptions of the Impact of Policy Pricing on the Customers' Buying Decision

If the 71 respondents are taken in to consideration, the impact of health insurance pricing on the customers' purchase decision (neutral to positive, 3.372). As per these respondent' perceptions, the pricing strategies positively influence the customers' decision towards health insurance policy (see table-4.2). This study shows that customers have positive perceptions regarding the pricing impact on customers' buying decision. Hence, it can be inferred that the buyers, think positively about its impact on their decision.

Table 4.1 Demographic profile of respondents

Description		Frequency	Percent
Gender	Male	44	62
	Female	27	38
Marital Status	Single	21	29.6
	Married	50	70.4
Age	18 - 29 years	25	35.2
	30 - 39 years	18	25.4
	40 - 49 years	22	31.0
	50 - 59 years	6	8.5
Education Qualifications	Illiterate	2	2.8
	Primary	10	14.1
	Higher secondary	23	32.4
	Graduation	24	33.8
	Post Graduation	12	16.9
Family Income	Rs.5001 - 10,000	15	21.1
	Rs.10, 001-15,000	26	36.6
	Rs.15, 001 - 20,000	22	31.0
	Above Rs.25, 000	8	11.3
Geographical Location	Rural	36	50.71
	Urban	35	49.29

Table 4.2 Perceptions of the impact of policy pricing on the customers' buying decision

Types of respondents	N	Mean	Rank
Overall Customers	71	3.372	2
Customers (Rural)	36	3.388	1
Customers (Urban)	35	3.356	3

4.2 Testing of Null Hypotheses

Similarly, the customers of both the urban and rural area possess almost similar perceptions with the significance level (0.81) exceeding the given level of 0.05 by a huge margin.

Table 4.3 Testing of Hypotheses (T-Test)

Factor	Comparison of Respondents	t- value	P - Value	Results
PR1	Customers (Urban) and Customers (Rural)	-.050	.046	Accepted
PR2		.460	.868	Accepted
PR3		.040	.381	Accepted
PR4		-.849	.655	Accepted
PR5		-1.797	.000**	Rejected

*significant at 5% level **significant at 1% level

Source: Primary Data

This is a general assumption that the sellers have a more positive perception regarding the product compared to the same of the customers. The positive perception about the impact of policy pricing on the customers' buying decision. Both the urban and rural customers have a similar perception. Though the urban customers were more developed (both economically and educationally) than the rural customers, they had no differences in their perceptions.

4.3 Regression Analysis on the relationships between independent variables (Pricing Policy) and dependent variable (income) the influence purchase decision

As tabulated in Table 4.4, the Different forms of payment and the lowest-premium product that will fit my needs are found as highly significant to impact purchase decision at 0.01 level in the model. In addition, this interaction was found showing negative correlation to the dependent variable. The R square of the model is 0.603 which explaining 60% of the total variance in the variable in the model.

Table 4.4: Regression Analysis on the relationships between independent variables (Pricing Policy) and dependent variable (income) the influence purchase decision

Table 4.4: Regression results

Variable	Standardized coefficients, Beta	Sig.	VIF
PR1(X1)	.015	.871	1.354
PR2(X2)	-.140	.152	1.532
PR3(X3)	.039	.678	1.403
PR4(X4)	.632	.000**	1.076
PR5(X5)	-.498	.000**	1.157
Degree of Freedom	5		
R - Square	.603		
F-Value	19.707		
Significant of Model, ANOVA	0.000**		

Note: significant at ** $p < 0.01$; * $p < 0.05$

Dependent variable: Income

5. Discussion and Managerial Implications

Based on the result, it is concluded that different forms of payment and the lowest-premium product that will fit my needs were positive correlated to the consumer purchasing decision on health insurance product. The result found that there is a relationship between income and policy pricing.

5.1 Managerial Implications

The finding of the study shows that pricing elements play a vital role in influencing the perception of customers toward purchase decision of health insurance. The different forms of payment and lowest premium are the key pricing elements having impact on customer's perception towards purchasing health insurance. Existing health insurance players and new/ potential entrants to Indian health insurance market must specify the weight of annual income and pricing factor having impact on customer's perception

towards purchase decision. Based on the relevance of each of these pricing elements, health insurance industry can suggest appropriate pricing strategies. Moreover, health insurance players who are planning to do business should be attentive when studying on health insurance purchase decision, so that they can focus on the major dimensions and plan to meet the customer's perception about pricing.

5.2 Limitations and Further Research

Firstly, this study was carried out mainly in Karaikal city; therefore, the results obtained may not be pertinent to the country as a whole. This study can be extended to other services marketing mix elements and purchase decision. Secondly, the present study has been collected only 71 customers of health insurance, ignoring the other health insurance customer and due to time constraint. This cannot lead to the generalizability of the findings and the results may not be implied conclusively to the whole customer. Additional studies are recommended to fill this gap. Thirdly, other variables (like future purchase decision, other marketing mix elements and overall satisfaction level etc.) having impact on customer's overall purchase decision should be taken into account in future research. Finally, these limitations may decrease the ability of generalizing the results of this study to other insurance customer settings. Therefore, the conceptual and methodology limitations of this study need to be considered when designing future research.

6. Conclusion

Based on this study, a few suggestions for the health insurance industry in India regarding their policy pricing strategies can be made. When buying the product the price level cheapest of the customer. Price is the most important factor when I am choosing a product as per the requirements of the potential customer. The health insurance companies ensure that policy pricing is unique and better compared to other alternate policies. A clear and simple price structure should be provided by the selling companies to the customer that can be understood easily by a lay man. When I considered buying product the lowest-premium that will fit my needs. Now, almost all the health insurance companies are inching towards a low-premium policy making the poorer rural sections eligible to possess the most elusive health insurance cover. Health insurance policy pricing strategy adopted by the insurers must incorporate the customers' expectations along with their apprehensions in order to impact their buying decision. The annual income also significant impact of purchase decision on health insurance product.

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