A study on factors affecting need recognition for life insurance policies in Chennai

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Abstract

Background/Objectives: This study examines the factors influencing need recognition of Life Insurance Policies on purchase of different types of plan and role of family life cycle in purchase decision of insurance policies.

Methods/Statistical analysis: The 500 life insurance policy holders of Life Insurance Corporation (LIC) are chosen as test sample through multi stage random sampling technique. The frequency and percentage analysis are carried out to understand the demographic profile. The exploratory factor analysis, ANOVA (Analysis of Variance) and the multiple regression analysis are done to examine the influence of factors affecting need recognition for life insurance policies on purchase of types of plan.

Findings: The study reveals that majority of life insurance policy holders are males and most of life insurance policy holders belong to the family life cycle of Bachelor Type. Most of life insurance policy holders are graduates and majority of life insurance policy holders are employed in private sector. Most of life insurance policy holders belong to the monthly income group of Rs. 20001 – 30000 and majority of life insurance policy holders are married.

The exploratory factor analysis shows that social security, peer influence, prosperity and safety are the factors affecting need recognition for life insurance policies. There is significant difference between demographic profile of life insurance policy holders and factors affecting need recognition for life insurance policies except gender and factors affecting need recognition for life insurance policies. The regression analysis indicates that social security, prosperity and safety are positively and significantly influencing the purchase of type of plan.

Application/Improvements: The insurance products of LIC should be designed and promoted as per the needs of the valuable policy holders. Since the family life cycle is the most important factor deciding the purchasing of life insurance policies, LIC should develop and market separate insurance policies for different stages of life cycle of policy holders.

Keywords: Life Insurance Policies**,** Need Recognition, Type of Plan, Demographic Profile, Family Life Cycle.

1. Introduction

The importance of life insurance increases drastically in last three decades, due to social and economical conditions, health issues, reduction of life expectancy and improvement of financial education among people. All this contribute to an increase of dependency costs and provide a reason for covering it through insurance. Also, the limits of social security schemes and tax benefits are broadly seen as inducers for purchasing of life insurance products and services as the public organizations will envelop increasingly less of the financial needs of the population [1-4]. Furthermore, development of financial savings for retirement age is seen as a factor that strongly sustained the demand for life insurance.

Life Insurance is considered to be an important part of an individual's investment portfolio, not necessarily to accumulate wealth, but to feel financially secure. Other then this, when an individual opts for a life insurance policy, he enjoys other benefits also, like tax-deduction options, and in some cases long term capital gains. Life Insurance is primarily made keeping family and those who are dependent on him in mind.

Important factors that an individual needs to understand prior to opting for life insurance policies are requirements, term (duration) and premium to be paid, nature and benefits of the policy in the longer run and coverage of the policy. The need and income of an individual helps him decide the amount of life insurance premium. The insured should also think about the benefits that he and / or his nominee will receive before deciding to go for a

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particular policy. Therefore, the present research is made to study the factors affecting need recognition for life insurance policies in Chennai.

According to [5], educational level, financial status and income of the policy holders are the major factors that influence the decision of taking the policy. Agents are the main people who provide information about various plans and schemes of LIC to the policyholders. Policyholders take policies for purposes, like education of children, safety, marriage, tax benefits, etc.

[6] In his research on the preferences of customers revealed that they do not prefer private sector rather they mainly opt for public sector. Protection is the major reason for which people buy insurance.

[7]Analyzed on socio-economic factors which are responsible for taking life insurance policies and examined the policy holders preference towards various type of policies of LIC. It was interpreted that factors such as age, educational level and sex are insignificant while deciding on an insurance policy.

Study conducted [8], researched on evaluating the existing performance of insurance products. The insurance coverage for agricultural labor is very low. The children money back policy is good but the performance of other children-related policies like Jeevan Kishore, Jeevan Balya, etc. is very poor.

[9] Undertook research on customer's awareness towards new insurance companies. It was found that majority of the customers belonged to the age group of 30. They also observed that huge percentage of the policy holders is married. It was also found that they had taken the policy to cover the risk. The study revealed that to design appropriate products insurance companies should understand the customers and determine correct price

2. Methodology

Chennai city has been purposively selected for the present study. Among various life insurance companies, the Life Insurance Corporation (LIC) of India has again purposively selected. The 500 life insurance policy holders of Life Insurance Corporation (LIC) are chosen through multi stage random sampling technique for this study and the data related to the year 2013-2014. The frequency and percentage analysis are carried out to understand the demographic profile of life insurance policy holders. The exploratory factor analysis is used to identify the factors affecting need recognition for life insurance policies. In order to know the difference between demographic profile of life insurance policy holders and factors affecting need recognition for life insurance policies, the ANOVA (Analysis of Variance) has been applied. The multiple regression analysis is done to examine the influence of factors affecting need recognition for life insurance policies on purchase of types of plan.

3. Results and discussion
3.1. Demographic profile of life insurance policy holders

The demographic profile of life insurance policy holders was analyzed and the results are presented in Table-1. The results show that about 65.20 per cent of life insurance policy holders are males and the rest of 34.80 per cent of life insurance policy holders are females. It is clear that about 35.00 per cent of life insurance policy holders belong to the family life cycle of Bachelor Type followed by Full Nest I(32.00 per cent), Newly Married Couple(13.80 per cent), Full Nest II(5.20 per cent), Full Nest III(3.60 per cent), Empty Nest I(3.40 per cent), Empty Nest II(3.00 per cent), Solitary Survivor(2.40 per cent) and Solitary Survivor(Retired)(1.60 per cent).

The results indicate that that about 40.80 per cent of life insurance policy holders are educated up to graduation followed by professionals (23.40 per cent), post graduation (17.80 per cent), up to secondary (9.80 per cent) and higher secondary (8.20 per cent). It is seen that about 53.80 per cent of life insurance policy holders are working in private sector followed by Government sector(23.20 per cent), own business(12.80 per cent), self employed(6.20 per cent) and retired(4.00 per cent).

The results reveal that about 31.40 per cent of life insurance policy holders belong to the monthly income group of Rs. 20001 − 30000 followed by Rs. 10001 − 20000(21.40 per cent), Rs. 30001 − 40000(15.00 per cent), above Rs. 50000(12.80 per cent), Rs. 40001 − 50000(10.80 per cent) and up to Rs. 10000(8.60 per cent). It is apparent that about 61.00 per cent of life insurance policy holders are married followed by unmarried (35.00 per cent) and widower/divorcer (4.00 per cent).

Table 1. Demographic Profile of Life Insurance Policy Holders

Particulars	Frequency	Percentage
Gender		
Male	326	65.20
Female	174	34.80
Family Life Cycle		
Bachelor Type	175	35.00
Newly Married Couple	69	13.80
Full Nest I	160	32.00
Full Nest II	26	5.20
Full Nest III	18	3.60
Empty Nest I	17	3.40
Empty Nest II	15	3.00
Solitary Survivor	12	2.40
Solitary Survivor(Retired)	8	1.60
Educational Qualification		
Up to Secondary	49	9.80
Higher Secondary	41	8.20
Graduation	204	40.80
Post Graduation	89	17.80
Professionals	117	23.40
Occupation		
Own Business	64	12.80
Government Sector	116	23.20
Private Sector	269	53.80
Self Employed	31	6.20
Retired	20	4.00
Monthly Income(Rs.)		
Up to 10000	43	8.60
10001 – 20000	107	21.40
20001 – 30000	157	31.40
30001 – 40000	75	15.00
40001 – 50000	54	10.80
Above 50000	64	12.80
Marital Status		
Married	305	61.00
Unmarried	175	35.00
Widower/Divorcer	20	4.00

3.2. Factors affecting need recognition for life insurance policies

To identify the factors affecting need recognition for life insurance policies, the exploratory factor analysis is applied and the results obtained through rotated component matrix are presented in Table-2.

Table 2. Factors Affecting Need Recognition for Life Insurance Policies

Particulars	Rotated Factors Loadings on			
	Factor-I	Factor-II	Factor-III	Factor-IV
Family Security	**.64**			
Saving			**.88**	
Retirement Planning	**.56**			
Child's Future Planning	**.58**			
Protection against the Financial Loss				**.59**
Medical Benefit	**.86**			
Social Status	**.80**			
Family Necessity		**.72**		
Awareness about Life Insurance				**.72**
Motivation of Friends		**.63**		
Compulsion of Spouse		**.77**		
Wealth Creation			**.79**	
Eigen Value	3.87	1.53	1.34	1.05
% of Variance	22.06	16.59	13.32	12.90
Cumulative % of Variance	22.06	38.65	51.97	64.87
Cronbach's Alpha			**0.81**	

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There are four independent factors which are extracted accounting for a total of 64.87 per cent of variations on 12 variables. The each of the four factors contributes to 22.06 per cent, 16.59 per cent, 13.32 per cent and 12.90 per cent respectively.

Extraction Method: Principal Component Analysis.
Rotation Method: Varimax with Kaiser Normalization.
Rotation converged in 10 iterations.

Factor-I: This factor includes:

- Family Security (0.64)

- Retirement Planning (0.56)

- Child's Future Planning (0.58)

- Medical Benefit (0.86)

- Social Status (0.80)

This factor is named as **"SOCIAL SECURITY"**

Factor-II: is formed with:

- Family Necessity (0.72)

- Motivation of Friends (0.63)

- Compulsion of Spouse (0.77)

This factor is named as **"PEER INFLUENCE"**

Factor-III: This factor consists:

- Saving (0.88)

- Wealth Creation (0.79)

This factor is named as **"PROSPERITY"**

Factor-IV: This factor is formed with:

- Protection against the Financial Loss (0.59)

- Awareness about Life Insurance (0.72)

This factor is named as "**SAFETYNESS"**

The Cronbach's alpha value is 0.81 and it is showing that all measures exhibit acceptable internal consistency. It is revealed that social security, peer influence, prosperity and safetyness are the factors affecting need recognition for life insurance policies.

3.3. Demographic profile of life insurance policy holders and factors affecting need recognition for life insurance policies

In order to examine the difference between demographic profile of life insurance policy holders and factors affecting need recognition for life insurance policies, the ANOVA (Analysis of Variance) has been applied and the results are presented in Table-3.

Table 3. Difference between Demographic Profile of Life Insurance Policy Holders and Factors Affecting Need Recognition for Life Insurance Policies

Particulars	F-Value	Sig
Gender and Factors Affecting Need Recognition for Life Insurance Policies	1.306	0.254
Family Life Cycle and Factors Affecting Need Recognition for Life Insurance Policies	2.312[*]	0.019
Educational Qualification and Factors Affecting Need Recognition for Life Insurance Policies	16.943[**]	0.000
Occupation and Factors Affecting Need Recognition for Life Insurance Policies	15.709[**]	0.000
Monthly Income and Factors Affecting Need Recognition for Life Insurance Policies	11.433[**]	0.000
Marital Status and Factors Affecting Need Recognition for Life Insurance Policies	7.221[**]	0.001

[**] indicates significant at one per cent level
[*] indicates significant at five per cent level

The results indicate that the F-values are significant indicating that there is significant difference between demographic profile of life insurance policy holders and factors affecting need recognition for life insurance policies except gender and factors affecting need recognition for life insurance policies. Hence, the null hypothesis of there is no significant difference between demographic profile of life insurance policy holders and factors affecting need recognition for life insurance policies is rejected.

3.4. Influence of factors affecting need recognition for life insurance policies on purchase of types of plan

To examine the influence of factors affecting need recognition for life insurance policies on purchase of types of plan, the multiple linear regression is done and the results are presented in Table-4.

The coefficient of multiple determination (R^2) is 0.57 and adjusted R^2 is 0.55 showing the regression model is moderately fit. It means that about 55.00 per cent of variation in dependent variable is explained by the independent variables taken into this regression model. The F-value is 4.791, which is significant at one per cent level implies that this regression model is significant.

Table 4. Influence of Factors Affecting Need Recognition for Life Insurance Policies on Purchase of Types of Plan

Factors Affecting Need Recognition for Life Insurance Policies	Regression Coefficients	t-value	Sig
Intercept	1.770[**]	7.056	0.000
Social Security(X_1)	.153[**]	3.600	0.001
Peer Influence (X_2)	.005	1.110	0.912
Prosperity (X_3)	.185[**]	3.781	0.001
Safetyness(X_4)	.115[*]	2.396	0.017
R^2	0.57		
Adjusted R^2	0.55		
F	4.791		0.001
N	500		

Dependent Variable=Purchase of Types of Plan
[**] Significance at one per cent level
[*] Significance at five per cent level

The results reveal that social security and prosperity are positively and significantly influencing the purchase of types of plan at one per cent level, whereas, safetyness is also positively and significantly influencing the purchase of types of plan at five per cent level. Hence, the null hypothesis that there is no significant influence of factors affecting need recognition for life insurance policies on purchase of types of plan is rejected.

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4. Conclusion

The study reveals that majority of life insurance policy holders are males and most of life insurance policy holders belong to the family life cycle of Bachelor Type. Most of life insurance policy holders are graduates and majority of life insurance policy holders are employed in private sector. Most of life insurance policy holders belong to the monthly income group of Rs. 20001 – 30000 and majority of life insurance policy holders are married.

The exploratory factor analysis shows that social security, peer influence, prosperity and safetyness are the factors affecting need recognition for life insurance policies. There is significant difference between demographic profile of life insurance policy holders and factors affecting need recognition for life insurance policies except gender and factors affecting need recognition for life insurance policies. The regression analysis indicates that social security, prosperity and safetyness are positively and significantly influencing the purchase of type of plan. Therefore, the insurance products of LIC should be designed and promoted as per the needs of the valuable policy holders. Since the family life cycle is the most important factor deciding the purchasing of life insurance policies, LIC should develop and market separate insurance polices for different stages of life cycle of policy holders.

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