

EXPLORING THE DETERMINANTS OF LIFE INSURANCE: A LITERATURE REVIEW APPROACH

Sekhar Chandra Sahoo¹, Koustubh Kanti Ray², Amarnath Mitra³

¹Ph.D. Scholar, School of Management, KIIT deemed to be University (IoE), Odisha, India.

²Professor, Finance, School of Management, KIIT deemed to be University (IoE), Odisha, India.

³Associate Professor, FORE School of Management, New Delhi, India.

Email :¹sahoosc@rediffmail.com, ²kkray@ksom.ac.in, ³amarnath.mitra@gmail.com

ABSTRACT: This paper is a review of studies that focuses on the determinants of life insurance. An attempt has been made to unravel and lucidly explain the arcane literature and to bring to the fore, the elements necessary for exploring the determinants of life insurance. The authors utilized a form of explicit review of literature that emphasizes on determinants of life insurance in a cogent manner to engender new systems and viewpoints. A frugal conceptual model has been put forward connecting demographic parameters, market and economic parameters, economic benefit parameters and other parameters specific to life insurance. Therefore, further systematic study on the relation attaching demographic parameters, market and economic parameters, economic benefit parameters and other parameters specific to life insurance, emerge to be extremely pertinent.

KEYWORDS: Determinants, Demographic parameters, Market and economic parameters, Economic benefit parameters, Life insurance.

1. INTRODUCTION

Life insurance is a contract in which the insurer (Life insurance company) is obliged to pay a pre-determined amount of money to the life assured, in event of the death of the life assured, or expiry of the fixed period, whichever is earlier, in exchange for periodic payments of an amount called the premium. The ordinance to nationalize the life insurance sector and bring LIC into existence was passed on 19th Jan, 1956. The LIC assimilated 154 Indian insurers, 16 Non-Indian insurers, in addition to 75 provident fund societies and in all 245 Indian as well as foreign insurers. Till the late 90s, LIC enjoyed its monopoly over life insurance sector until the then IRDA decided to open up the market and invite private applications for registration in August 2000.

After LPG (Liberalization, Privatization and Globalization) Indian insurance sector became fiercely competitive to tap the greater pie of the market. Thus retention of customers and attracting customers became vital lifeline for insurance companies. Therefore, it is pertinent to recognize and assess the factors that impact the choice of customer for life insurance. Through this study, the authors strive to explore the elements that dominate the customer's demand towards life insurance in emerging economy. With increasing competition, customers have become choosy to select amongst variety of financial products on offer. The study attempts bring out various determinants/motives of life insurance as their preferred financial solution.

The determining factors for life insurance subscription is relevant for life insurance companies. As such studies and analysis have not been carried out by many authors in the past, the juxtaposition with similar studies and analysis turned out to be an arduous task for the life insurance purchase decision. This study approaches the topic on a subjective manner to examine the determinants of life insurance and the concepts of customer satisfaction in the sector of life insurance. It is envisaged that through this study, it is aimed to provide a qualitative perspective to analyze the determinants of life insurance. The pivotal role of the determining factors for life insurance purchase have been underscored by this research inculcated on assessment report addressing the research gaps and prospective future directions for the field.

2. MOTIVATION FOR UNDERTAKING THE STUDY

1. The growth of life insurance sector in India has been at a break-neck speed. The competition intensifies even more, with the entrance of many private players. Thus, satisfaction of customers has become a pivotal issue for managements of life insurance companies to preserve customer-base and influence new customers. Private insurance companies are not aware of the customer-needs and thus fail to attract prospective customers. Therefore, it's imperative that elements that dominate the choice of customers for life insurance are identified and evaluated. This study strives to investigate these elements dominating the customer's choice in emerging economy.

2. For life insurance companies in India, as the competition intensifies, the importance of customer increases. However, this intense competition also gives rise to the problem of too-may-choices to the potential customer and poses difficulty in finding a proper insurance company.
3. The present study will help life insurance companies for market segmentation, targeting & positioning of life insurance products.
4. It is high time that the potency of the Customer Relationship Management is realized by the insurance industry. The findings of the research will provide everything to life insurance companies to build a state of art, customer-driven and highly profit making organization.

3. REVIEW OF LITERATURE:

There are many factors that influence the life insurance decision of individuals. The review of prior literature reveals much important information regarding life insurance policy decision making. The authors have considered several significant elements of life insurance to investigate their predictive power. The determinants found in the prior studies are classified into four categories i.e. (a) demographic parameters; (b) market and economic parameters; (c) economic benefit parameters and (d) other parameters (specific to life insurance). Table-1 summarizes the determinants taken by different authors in their respective studies.

Table-1: Review of Determinants of Life Insurance

Parameters	Authors (Year)	Determinants	Findings
Demographic Parameters	Lewis (1989)	Number of dependents	Studied the influence it exerts on the demand for life insurance
	Truett&Truett (1990)	Higher income; Inelasticity of demand; Age, education & Income	Influence the demand for Life Insurance.
	Browne & Kim (1993)	Dependency ratio	One of the defining factors defining growth of life insurance industry
	Beck & Webb (2003)	Per-capita income	Strong predictor of use of life insurance
	Li et al. (2007)	No. of dependents; Level of education; Positive income elasticity	Accelerate demand for life insurance
	Kakar and Shukla (2010)	Asset ownership; Education; Occupation	Major components of life insurance participation
	Lieberge et al. (2012)	Age Education	Positively related with life insurance consumption
	Sen and Madhewaran (2013)	Income; Youth dependency ratio	Help growth of life insurance participation
Market & Economic Parameters	Beck & Webb (2013)	Inflation	Strong predictor of use of life insurance
	Sen&Madheswaran (2013)	Inflation; Real Interest Rate Improved regulation Foreign ownership	Help growth of life insurance participation
	Sliwinsky et al. (2013)	Economic and financial nature	Has high impact on demand for life insurance
Economic Benefit Parameters	Beenstock et al. (1986)	Income Protection; Pure saving	Is an important element of life insurance
	Browne & Kim (1993)	Price of life insurance	One of the defining factors defining growth of life insurance industry
	Outreville (1998)	Insurance Premium rate	Impacts the demand for life

			insurance subscription
	Raman and Gayatri (2004)	Tax advantage; Growth of capital	Are main reasons for purchase of life insurance policy
Other Parameters (Specific to life insurance)	Beenstock et al. (1986)	Life protection	Is considered to be the first factor of life insurance
	Raman and Gayatri (2004)	Life risk	Is important reason for purchase of life insurance policy
	Ramanathan (2014)	Service quality; level of awareness about life insurance; customer satisfaction	Are instrumental towards purchase of life insurance
	Wong (2004)	Emotional satisfaction; Customer Loyalty; Quality of relationship	Help in purchase of life insurance
	Song et al. (2019)	Death experience of a family member	Is positively correlated with life insurance demand.
	Formisano (1981)	Inadequate information (not well informed concerning the nature & operation of life insurance policies)	Adequate policy Information stimulates Life insurance demand
	Chui & Kwok (2008)	Individualism	Has a significant & positive impact on life insurance consumption

Demographic parameters:

The number of dependents and the influence it exerts on the demand for life insurance was studied by Lewis (1989). Similarly, the pattern of growth of consumption of life insurance in Mexico and US for the period of 1964-1984 was studied by Truett and Truett (1990). They deduced that there exists, in Mexico, with low income levels, a higher income demand inelasticity for life insurance. Other noteworthy components impacting demand for life insurance in both the countries were age, education and income. After World War II, the service sector has grown exponentially and 1950 onwards, the average growth rate of insurance industry has remained above 10%. The international insurance industry grew at a pace of above 25% during mid-1980s. As per Browne and Kim (1993) the important factors defining growth of life insurance industry are: (1) Dependency Ratio (2) National Income (3) Spending by Govt. on social security (4) Inflation and (5) Price of life insurance and predominance of Islam.

During last 40 years, by virtue of providing an array of financial services to providing investment to the Capital Markets, the life insurance industry has become a very important player of the financial sector (Beck and Webb, 2003). Nonetheless, the underlying cause for extreme disparity in life insurance consumption still remains undetermined even now. By analyzing the data of 68 economies for the period of 1961-2000, at different frequencies, the article notes that economic indicators such as per-capita income, development in banking sector, inflation, religion as well as institutional factors are strong predictors of the use of life insurance. It seems that there is no strong association of life insurance consumption with education, mortality, the ratio of the youth dependency and the social security size. The outcome highlights the significant role played by stability of price and development in banking sector for the savings and investment functions of life insurance to reach their full potential, in an economy.

In a survey by Chowdhury et al. (2007), the authors found that for a sizable mass of people, earning higher returns on deposited money is the primary idea behind choosing life insurance. Similarly, Li et al. (2007), through the study of the demand for Life Insurance indicated positive income elasticity. The demand and supply was found to be incumbent upon dependents, life expectancy, educational qualification, and expenditure on social security.

The indicators of demand for Life Insurance for selected Asian Economies and India was analyzed by Sen (2008). In the two parts study: The first part used data for 11 year period (1994-2004) from South East Asian countries to analyze economic and other socio-political dynamics, that may have a crucial function in simplifying the design of life insurance consumption in these economies. In the second part of the study, a discrete exercise was carried out to re-evaluate if the dynamic components best analyzing the consumption pattern of life insurance for the twelve selected Asian economies in the panel are important in Indian context for

the period 1965 to 2004. Some of the dynamic components were effective in determining the demand for life insurance in both the analytical exercises. But negation to earlier studies were also observed by him.

Kakar and Shukla (2010) tried to identify determinants of the ownership of life insurance in India. An analysis carried out through logistic regression corroborates the fact that insured households are more likely to be prosperous, educated and hopeful about financial security in contrast to the non-insured households. Besides asset-ownership, for a household, the education level plus the occupation of the chief earner are major components of life insurance participation. In addition to those households which are confident regarding sufficiency of inflow income and savings are likely have a better level of participation in life insurance. Rural—urban divide is not present with respect to these determining factors.

Liebenberg et al. (2012) recapitulated the studies on micro data (usually household earnings or consumer spending surveys) carried out over the last 40 years. The authors found the relationship between consumption of life insurance and income to be positive. But they were skeptical of the idea that there is a negative relationship between consumption of life insurance with higher age. However they were inconclusive regarding the impact of education and youth dependents.

Market and economic parameters:

Sen and Madheswaran (2013) analyzed the parameters elucidating the demand for life insurance and found that life insurance consumption have following significant factors, i.e. income, financial depth, inflation, the real interest rate and young dependency ratio. Improved regulation and foreign ownership may help growth. The research using macro data indicate the limitations and helps in a great way to understanding the developing insurance industry .

The detailed study of life insurance sector in Poland, as presented by Sliwinsky et al. (2013) drew comparison with top 10 emerging markets and other CCE countries. The factor analysis for independent factors affecting demand for life insurance confirms that economic and financial nature has high impact on demand for life insurance.

Economic Benefit parameters:

The first and second forms of life insurance were termed as “Life Protection” and “Income Protection” by Beenstock et al. (1986). The authors further went ahead and added another purpose of life insurance with the trait of “decent saving”, an element which is not dependent to the life of the insured but to the yield on the investment. Although, under normal practice, all these groups correlate to term life insurance, annuities, pensions and subsidization, the dissimilarities are disguised in the types of life insurance products that are being actually sold.

Outreville (1996, p. 265) clarifies that insurance premium rate impacts the demand of life insurance subscription.

Awareness of customers towards insurance companies was observed by Raman and Gayatri (2004). As per their observation life-risk was the reason for purchase of insurance for 52 % of the respondents, whereas for 44 % of respondents tax advantage was the reason and for the remaining respondents, growth of capital was the main reason for insurance policy.

Other parameters (specific to life insurance):

Empirical examination of “Emotional Satisfaction” in the service encounters was carried out by Wong (2004). The study found quality of service has a positive correlation with emotional satisfaction, which leads to loyalty of customer and quality of relationship. The author established that the enjoyment that the customer feels acts as the best indicator of quality of relationship. In addition, the service firms that seek to retain customers and aim for long-term profitability, must prudently use the key precursors of loyalty of customer and quality of relationship.

Ramanathan (2011) observed that Service quality, level of awareness about life insurance and customer satisfaction are instrumental towards purchase of life insurance.

Through the interviews of consumers, Formisano (1981) observed that a considerable segment of the sampled insurance customers were unaware of the provisions in the regulation focused on improving their abilities to buy life insurance. In addition to that, it was observed that many buyers of life insurance were not well-versed about the characters and operations of the contract of life insurance, and more importantly the insurance policies they themselves had purchased. With the help of cross-disciplinary study, Chui and Kwok (2008) analyzed the impact of national cultures on the patterns of consumption of life insurance, across countries. As a service, Life Insurance is characterized by being an abstract, complex product where future benefits are unsure. Owing to these unpredictable and vague nature inherent to life insurance, cultural prescriptions play an important guiding-role for consumers. As per the findings, Individualism has a remarkable positive impact of the consumption of life insurance, while masculinity/ femininity and power distance have

consequential negative effect. The results are strong, even after supervising the demographic, economic and institutional elements. Demographic and economic factors have been on focus in the literatures on demand for life insurance. Psychological factors like the experience of death of a family member and its impact on life insurance ownership were studied by Song et al. (2019) clarified that death experience and demand for life insurance have positive relationship. It gives a better result when situational and dispositional factors are examined together.

4. RESEARCH GAP

The empirical exploration of the relation between the determinants relating to customer behaviour in life insurance has been carried out by few studies. The future investigations on the behaviour towards life insurance may be explored under these determinants under empirical settings. The parameters like demographic, market and economic, economic benefit and other parameters specific to life insurance are emerged as significant determinants of life insurance decision. This present study on the review of literature focusing on the determinants of life insurance selection is significant and showing a proper direction of further research on the subject. The study proposes a model on the dimension of the determinants of life insurance. The model is present below in Figure1.

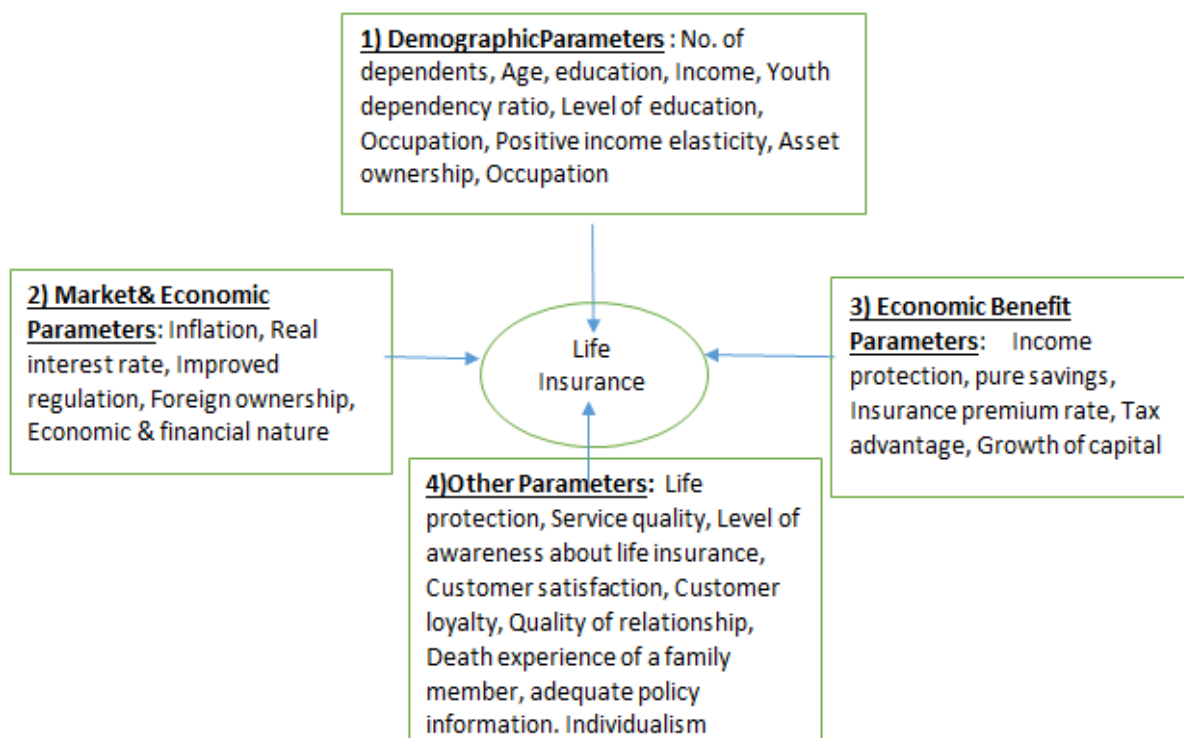


Figure-1: Determinants of Life Insurance-Dimensions

5. CONCLUSION

Our findings suggest that Premium, Company Image, Brand Name, overall financial satisfaction, service quality, ease in procedure, company-client relationship, secure investment & company loyalty, tax savings, household income; family security; awareness/information about the nature and operation of life insurance policies are the important determinants for availing life insurance policies. The findings of the research will definitely help increasing insurance literacy and help the society at large. The paper augments the literature on the determining factors that have an impact on the demand for life insurance. The life insurance determinants in the competitive milieu in India compared to other developing countries would lead to improved findings in the field in future.

6. REFERENCES

[1]. Adam, Sliwinski. , Tomasz, Michalski and Malgorzata, Roszkiewicz. (2013). The Geneva Papers, 2013, 38, (pp. 62-87).
 [2]. Beck, T., & Webb, I. (2003). Economic, demographic, and institutional determinants of life insurance consumption across countries. The World Bank Economic Review, 17(1), 51-88.

- [3]. Beenstock, M., Dickinson, G., &Khajuria, S. (1986). The determination of life premiums: An international cross-section analysis 1970–1981. *Insurance: Mathematics and Economics*, 5(4), 261-270.
- [4]. Browne, M. J., & Kim, K. (1993). An international analysis of life insurance demand. *Journal of Risk and Insurance*, 616-634.
- [5]. Chowdhury, T. A., Rahman, M. I., &Afza, S. R. (2007). Perceptions of the customers towards insurance companies in Bangladesh-A study based on the survqual model.
- [6]. Chui, and Cy Kwok. (2008). *Journal of International Business Studies*. “National Culture and Life Insurance Consumption”.
- [7]. Formisano, Roger A. (1981). *The Journal of Risk and Insurance*. (Vol. 48 no.1, pp. 59-79).
- [8]. Kakar and Shukla (2010). *The Journal of Applied Economics Research*. “The Determinants of Demand for Life Insurance in an Emerging Economy-India”.
- [9]. Kotler, P. (1973). Atmospherics as on marketing tool. *Journal of Retailing* (pp.48-64).
- [10]. Lewis, F. D. (1989). Dependents and the demand for life insurance. *The American economic review*, 79(3), 452-467.
- [11]. Li, D., Moshirian, F., Nguyen, P., & Wee, T. (2007). The demand for life insurance in OECD countries. *Journal of Risk and Insurance*, 74(3), 637-652.
- [12]. Liebenberg, A. P., Carson, J. M., &Dumm, R. E. (2012). A dynamic analysis of the demand for life insurance. *Journal of Risk and Insurance*, 79(3), 619-644.
- [13]. Outreville, J. F. (1996). Life insurance markets in developing countries. *Journal of risk and insurance*, 263-278.
- [14]. Raman, N., &Gayathri, C. (2004). A study on customers awareness towards new insurance companies. *Indian Journal of Marketing*, 34(1).
- [15]. Ramanathan, K.V., A project on “A study on Policyholders Satisfaction with Special Reference to Life Insurance Corporation of India, Thanjavur Division, Bharathidasan University, 2011.
- [16]. Sen, S. (2008). An analysis of life insurance demand determinants for selected Asian Economies and India (pp. 1-47). *Madras School of Economics*.
- [17]. Sen, S., &Madheswaran, S. (2013). Regional determinants of life insurance consumption: evidence from selected Asian economies. *Asian-Pacific Economic Literature*, 27(2), 86-103.
- [18]. Song, I. J., Park, H., Park, N., &Heo, W. (2019). The effect of experiencing a death on life insurance ownership. *Journal of Behavioral and Experimental Finance*, 22, 170-176.
- [19]. Truett, D. B., &Truett, L. J. (1990). The demand for life insurance in Mexico and the United States: A comparative study. *Journal of Risk and Insurance*, 321-328.
- [20]. Wong, Amy. (2004). *Managing Service Quality*. (Vol. 14 no.5, pp. 365-376).