

A STUDY ON PURCHASE DECISION-MAKING TOWARDS LIFE INSURANCE PRODUCTS

A. Lenin Jothi

Associate Professor, Rukmini Devi Institute of Advanced Studies, Delhi, India

Abstract *In this competitive market environment, there has been growing awareness about life insurance products and demand for the same is considerably increased. This research aims at determining consumers' attitudes towards buying life insurance products and to understand their purchase and repurchase intention. Since knowledge and information about life insurance plays a major role in deciding on the purchase of a life insurance product, a brief discussion on the impact of various sources of information has been laid down. This research was conducted in the Delhi and NCR region of India taking a sample of 500 LIC customers and 500 private sector customers using quota sampling. The research shows significant difference in repurchase intention between public (LIC) and private sector customers and LIC customers have shown more positive repurchase intention than the private sector customers. The results show that the purchase decision-making is heavily dependent upon the gender of the married customers. This research further concludes that the agency system is still the major contributor to the growth of life insurance business in India.*

Key Words *Life Insurance, Product Information, Purchase Decision-making, Repurchase Intention*

INTRODUCTION

Insurance and economic development of our country moves together towards the direction of growth. Insurance companies, both life and non-life, have been playing the role of financial intermediaries and performing extremely useful functions in our economy. For most people, insurance is the most important technique for handling risk (Rejda, 2004). The life insurance perception has significantly changed to a risk management device rather than simply a tax saving tool. The growing importance and diversified product categories have changed the buying behaviour of life insurance customers to a great extent. Life insurance product features, therefore, create differences in perception among the insureds and the related benefits like taxation, loan facilities etc. change the purchase behaviour of people on a dynamic basis. Purchase or behavioural intention of a customer is a function of attitude toward the behaviour in question to whether the customer has a favourable or unfavourable evaluation of the behaviour. A satisfied customer will retain and bring more customers. The evaluation mechanism of consumer satisfaction is built around the factors which leads the customers to think of the repurchase. Henkel, Houchaime, Locatelli, Singh, Zeithaml, Bittner (2006) have discussed that satisfied customers have high future intentions to stay with the company and future repurchase intentions. This paper is aimed at studying the sources of information regarding life insurance products which influence the purchase decision making, analysing

repurchase intention of life insurance customers and cross-comparing the same in the sphere of public and private sector life insurance companies.

OVERVIEW OF INDIAN LIFE INSURANCE INDUSTRY

The insurance sector in India dates back to 1818, when the first insurance company was established, the Oriental Life Insurance Company at Calcutta. This was followed in quick succession by the Bombay Life Assurance Company (1823), which issued short-term (2–3 years) policies, and Madras Equitable Life Assurance Society (1829). In 1914, there were only 44 companies; by 1940 this number grew to 195. Business in force during this period grew from Rs.22.44 crores to Rs.304.03 crores. During 1941 to 1945, 25 new companies were started. Lot of life insurance companies came into existence subsequently. By 1956, there were 154 Indian insurance companies, 16 non-Indian insurance companies and 75 provident societies that were issuing life insurance policies. The nationalization of life insurance business took place in 1956, when these 245 Indian and foreign insurance and provident societies were first amalgamated and then nationalized through the Life Insurance Corporation Act, 1956 and LIC came into existence.

The year 2000 was a defining movement in the history of the Indian insurance industry. For the first time, the

sector was opened up to the private sector (Kumar, 2008). The Insurance Regulatory and Development Authority Act, 1999 with amendments in The Insurance Act, 1938, The Life Insurance Corporation Act, 1956 and The General Insurance Business Act, 1972, was enacted to provide for the establishment of the Insurance Regulatory and Development Authority (IRDA). Now, we find over a dozen private players in the life insurance market. Apart from LIC, at present there are 22 private insurers in the life insurance sector (IRDA Annual Report, 2010). The FDI limit in the insurance sector has been capped at 26 per cent for the foreign marketers, but the government is thinking to increase it to 49 per cent and a bill of this offer is pending at the Parliament. Several new players are expected to enter India’s rapidly growing insurance market, particularly in the life insurance market, especially, if the FDI limit is raised from 26 per cent to 49 per cent.

For the last one decade of this liberalized era, Indian life insurance industry has been witnessing tremendous changes with private players having reasonable growth rate and market share. However, LIC continues to be the dominant life insurer even in the liberalized scenario of Indian insurance and is moving fast on a new growth surpassing its own past records.

Table I Market Share of Life Insurers (in per cent)

Year	Based on 1st Yr. Premium		Based on Total Premium	
	LIC	Private	LIC	Private
2001–02	98.65	1.35	99.46	0.54
2002–03	94.30	5.70	97.99	2.01
2003–04	87.67	12.33	95.32	4.68
2004–05	78.78	21.22	90.67	9.33
2005–06	73.52	26.48	85.75	14.25
2006–07	74.32	25.68	81.90	18.10
2007–08	64.02	35.98	74.39	25.61
2008–09	61.12	38.88	70.92	29.08
2009-10	65.08	34.92	70.10	29.90

Source: Compiled from IRDA report at www.irdaindia.com

In terms of first year premium, LIC’s share was 98.65 per cent in 2001–02 and 94.30 per cent in 2002–03 (Jawaharlal, 2004). Finally, it was reduced to 61.12 per cent in 2008–09 (Table I). However, According to IRDA annual report, the market share of LIC rebounded to 65.08 per cent in 2009–10 from 61.12 per cent in 2008–09, which was declining continuously since the sector was opened for private. In terms of total premium, market share of LIC has fallen to 70.92 per cent in 2008–09 from 99.46 per cent in 2001–02. Even after 10 years of liberalisation, private players altogether could

capture the share of only 29.08 per cent. On the basis of total premium income, the market share of LIC declined marginally from 70.92 per cent in 2008-09 to 70.10 per cent in 2009-10. It is to be noted that the decline is considerably very small. However, LIC is still the unbeatable market leader in the life insurance industry in India as on date.

OBJECTIVES AND METHODS

This paper aims to determine Indian consumers’ attitudes towards buying life insurance and to understand their purchase and repurchase intention towards life insurance products. The objectives are to determine the association of the gender of the married customers and the purchase decision-making, to study various sources of information regarding life insurance which influence the customers’ buying behaviour and to test and cross compare the repurchase intention of public and private sector life insurance customers. A special emphasis has been given to provide insight into the structure of life insurance industry in India.

The study broadly involves data collection and its analysis. Duration of this research study is 6 months from July, 2010 to December, 2010. Data for the purpose of analysis were collected through a well-structured questionnaire and conclusions and generalisations were drawn from the obtained data. Questionnaires were personally delivered by hand at workplaces and homes. The sample has been drawn from the customers who have purchased a life insurance policy after the liberalization of insurance industry, i.e., after the year 2000 from either LIC or any one of the five private life insurance companies, namely-ICICI Prudential, HDFC Standard life, Birla Sun life, SBI Life and Bajaj Allianz. These private companies are selected on the basis of their existence in the industry for a long time and the reasonable market share of them among the private players. A sample of 1,000 customers (500 from public sector and 500 from private sector) from the National Capital Region (NCR) of Delhi comprising Delhi and its suburbs (Noida, Gaziabad, Faridabad, and Gurgaon) was taken for the purpose of this study. Non-Probability sampling method was chosen as the basic method to carry out this study and quota sampling was chosen as the specific method. Fixation of certain quotas is given in the following table. Sample elements from each private company are chosen in equal ratio from all regions. There is no age-wise distribution of respondents.

Sector	Delhi	Gaziabad	Noida	Faridabad	Gurgaon	Total
LIC	300	50	50	50	50	500
Private	300	50	50	50	50	500
Total	600	100	100	100	100	1000

To assess the purchase and repurchase intention, the following set of hypothesis was formulated and tested using statistical tools and techniques.

H1: Gender has no influence on the decision to purchase life insurance policy.

H2: There is no significant difference between the repurchase intention of public and private sector life insurance customers.

LITERATURE REVIEW

There are three main types of life insurance policies in actuarial literature (Black and Skipper, 2000) including term life insurance - that provide a death benefit for a limited number of years, whole life insurance - which provides a death benefit for lifetime and endowment life insurance - which is a term life insurance with a saving component. In general terms, life insurance is a way of dealing with risk and a saving medium for consumers. It also plays important psychological and social roles. The major function of life insurance is to protect against financial loss from loss of human life. Besides covering the risk of death, it also covers the risks of disability, critical illness, and superannuation (Hofstede, 1995). Life insurance is therefore developed on the concept of human life value.

Life insurance is far more than just a decision of how much to buy. Depending on your financial situation, life insurance can be used for a variety of purposes. Deciding on the purchase of life insurance product is critical for every customer. The paramount goal of marketing is to understand customers and their buying behaviour. One of the main perspectives of the consumer behaviour research analyses buying behaviour from the so-called "information processing perspective" (Holbrook and Hirschman 1982). According to this model, customer decision-making process comprises a need-satisfying behaviour and a wide range of motivating and influencing factors. The process can be depicted in the following steps (Engel, Blackwell, and Miniard, 1995):

- *Need recognition* – Realisation of the difference between desired situation and the current situation that serves as a trigger for the entire consumption process.
- *Search for information* – Search for data relevant for the purchasing decision, both from internal sources (one's memory) and/or external sources.
- *Pre-purchase alternative evaluation* – Assessment of available choices that can fulfil the realised need by evaluating benefits they may deliver and reduction of the number of options to the one (or several) preferred.
- *Purchase* – Acquisition of the chosen option of product or service.
- *Consumption* – Utilisation of the procured option.
- *Post-purchase alternative re-evaluation* – Assessment of whether or not and to what degree the consumption of the alternative produced satisfaction.

- *Divestment* – Disposal of the unconsumed product or its remnants.

When a consumer decides to purchase a life insurance product, he/she is likely to search for more information. A customer can obtain information from several sources such as Personal sources (family, friends, neighbours), Commercial sources (advertising, salespeople, retailers), Public sources (newspapers, radio, television, specialist magazines), and Experiential sources (handling, examining, using the product). Besides the information processing perspective, marketing analyses consumer behaviour by employing a psychologically grounded concept of attitudes (Balderjahn 1988; Luzar and Cosse, 1998). It is consumer attitudes that are usually named as the major factor in shaping consumer behaviour. According to Bateson (1989), understanding customer choice behaviour becomes a necessary pre-requisite for firms that need to compete effectively. This invariably brings out the need for studying consumer buying behaviour.

The buying intent of a Life Insurance product by a small investor can be due to multiple reasons depending upon customers risk return trade off (Debasish, 2004). Out of the elements of marketing mix, product, promotional, and service factors have been found to play a role in the purchase of insurance policies (Chow-Chua and Lim, 2000) and hence treated as stimuli influencing the purchase process. Promotional factors include advertisement, friends' or relatives' suggestion and agent's recommendations. In terms of life insurance products, product related factors can include range of coverage offered by the policy, expected returns of life insurance policies, fringe benefits offered by the insuring company, brand name (Chow-Chua and Lim, 2000). Various researchers have highlighted the importance and influence of brand image while purchasing decision-making (Retzloff, 1989; O'cass and Frost, 2002; Arora and Stoner, 1996).

Lahiri (2004) stress that brand image is of great importance for an intangible service like insurance. He also states that more than the advertising gimmicks, the utility of the brand to the customers is appreciated as an influencing factor. Country of origin or reputation of company is parts of a multitude of factors affecting perceived product quality (Bilkey and Nes, 1982; Farmer, 1987; Liefeld, 1993). Other factors include regular income, extra coverage, maturity amount, technology, and etc. Since life insurance is a long-term benefit, a customer takes deep considerations while deciding to purchase a life insurance policy.

ANALYSIS AND RESULTS

Before purchasing a life insurance policy, customers generally compare the products of several companies and finally select one as their insurer. It has been found that only

40 per cent respondents (401) have made such comparison before purchasing a policy. Among them, 43 per cent (217 of 500) of LIC customers and only 37 per cent (184 of 500) of private customers have made such comparison before purchasing their policy.

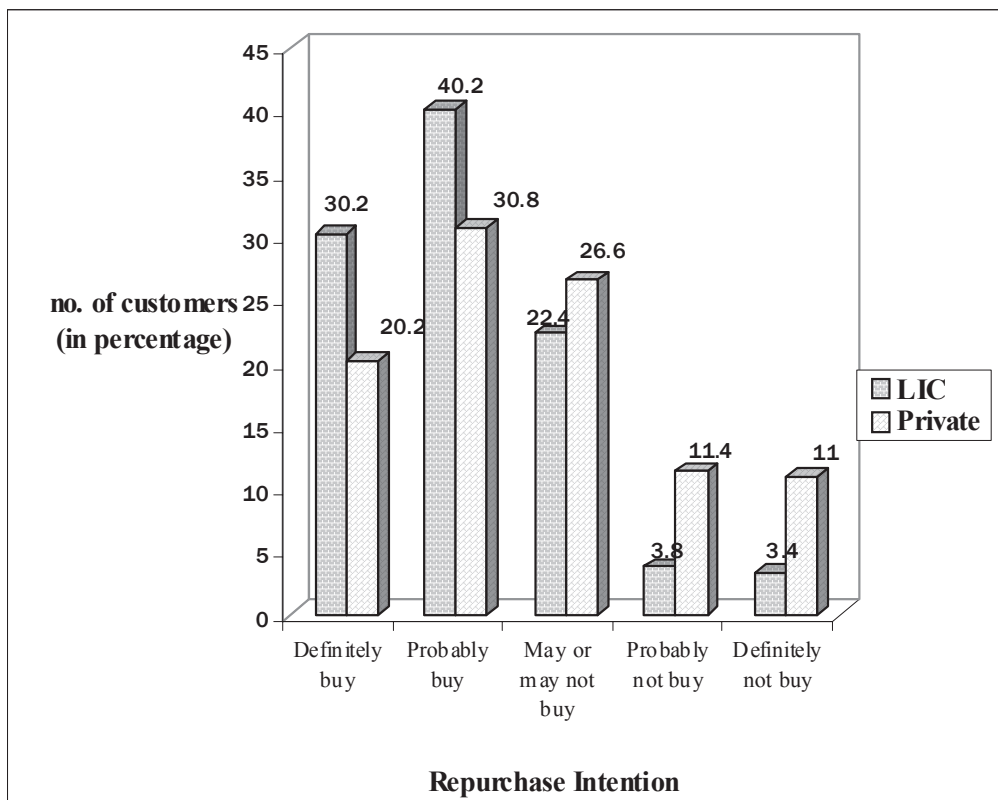
Among those who compared different companies, 11 per cent have compared with one company; 29 per cent with two companies; 40 per cent with 3 companies; and remaining customers with more than 3 companies. All respondents were asked to mention whether they compared only policies, companies, or the both. 23 per cent customers have compared only Policies, only 12 per cent compared companies, and the remaining 65 per cent both.

Respondents were given two options to mention the nature of their insurance policy: Unit-Linked Policy and Non-Linked Policy. The overall response shows that 61.9 per cent policies are unit-linked and 38.1 per cent are non-linked. Among LIC customers, 38 per cent customers have purchased unit-linked plans and 62 per cent customers have purchased non-linked plans. Among the private sector customers, 75.8 per cent have purchased unit-linked plans and only 24.2 per cent have gone for the non-linked plans.

respondents have agreed that they would definitely buy in future from the same company, whereas only 7.2 per cent customers have strongly denied the repurchase from the same company. A comparative analysis (Figure I) between the public and private sector showed that LIC customers (70.4 per cent) have shown more positive repurchase intention than the private sector customers (51 per cent) and the frequency of customers who have shown negative intention is comparatively more in the private sector (22.4 per cent) than the public sector (7.2 per cent). This might be the reflection of low customer satisfaction level of private sector.

Table II indicates the difference between the mean scores of public and private sector on the re-purchase intention of customers. The significance level obtained from the t-test is 0.000 at 5 per cent level. Therefore the hypothesis, H2, is rejected. This means that there is significant difference between the repurchase intention of public and private sector life insurance customers. Positive sign of the t-value indicates that LIC customers are more interested than private customers in re-purchase of life insurance products.

Figure I Repurchase Intention of customers: Public vs. Private



The repurchase intention of the customers from the same insurance company was measured using Five Point Likert Scale: Definitely buy, Probably buy, May or may not buy, Probably not buy, and Definitely not buy. 25.2 per cent

Among the total respondents, 80.6 per cent are married in which 66.63 per cent are male. They were asked to indicate the decision-maker of the purchase of latest life insurance policy. Among the married people, 48.14 per cent have

taken the decision on their own. 14.64 per cent purchases were decided by their spouses and 37.22 per cent purchases were decided by both husband and wife. It is interesting to observe that in case of married male respondents, only 9 percent purchases were decided by their spouses, but in case of married female respondents, 26 per cent purchases were by the spouse. The association of gender of married people and decision-making on purchase was statistically tested using chi-square test.

Table II Repurchase Intention: Public vs. Private

	Mean for LIC = 2.622				
	Mean	Mean Difference	Std. Error Mean	t	Sig. (2-tailed)
Private	2.100	0.522	0.07154	7.297	0.000

Table III indicates the relationship between gender of the married people and type of insurance policy selected. The χ^2 -value obtained is 60.140 for 2 degrees of freedom at $p = 0.000$, which is more than the critical value of $\chi^2 = 5.991$ for 2 degrees of freedom at $p = 0.05$ significance level. The null hypothesis, H1, is therefore rejected. It is therefore concluded that the purchase decision-making is heavily depending upon the gender of the married customers.

To find the mode of purchase, respondents were given five options from where they purchased their current life insurance policy: Insurer, Bank, Agents, Brokers, and on-line. A majority of 72.1 per cent customers have purchased their insurance policy through agents followed by directly from insurer 15.5 per cent; 8.8 per cent from banks; and 3.6 per cent from brokers. No one has purchased through on-line. Thus, it was found that system of agents is still the major channel of distribution of life insurance products in India.

Figure II shows the comparison made between public and private sector life insurance companies. It is observed that 80.8 per cent of LIC customers have purchased their policy through agents, whereas 63.3 per cent of private customers purchased from agents. Private sector insurance companies have better utilized the other sources than the Corporation.

To study the customers' attitude on the interest of life insurance agents, they were asked to indicate the extent to which they would agree that Insurance agents were interested more in promoting their insurance policies than understanding their needs. The responses are shown in the figure III. Among the respondents who have purchased insurance policies through agents, 43 per cent respondents

Figure II Mode of Purchase: Purchase vs. Private

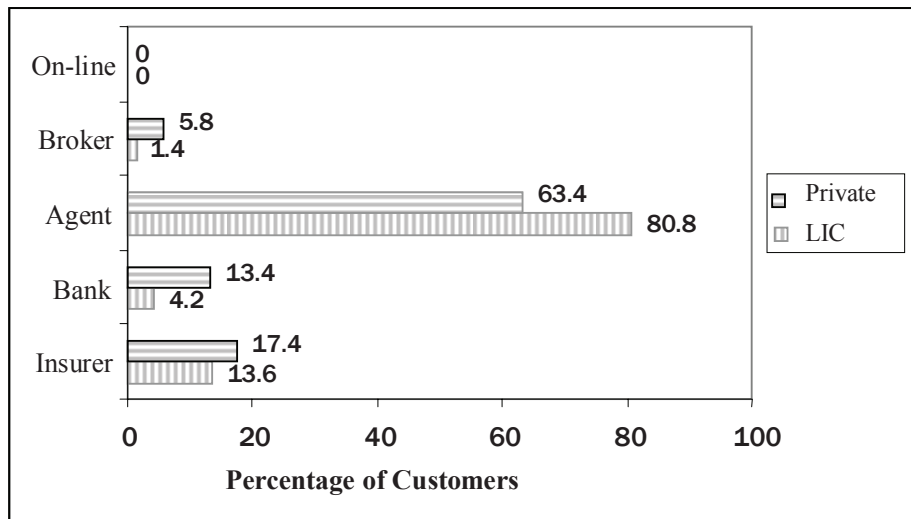


Table III χ^2 -Test: Gender and Purchase Decision-making

Gender	Purchase Decision – Making			Total
	By Me	By Spouse	By Both	
Male	302	48	187	537
Female	86	70	113	269
Total	388	118	300	806

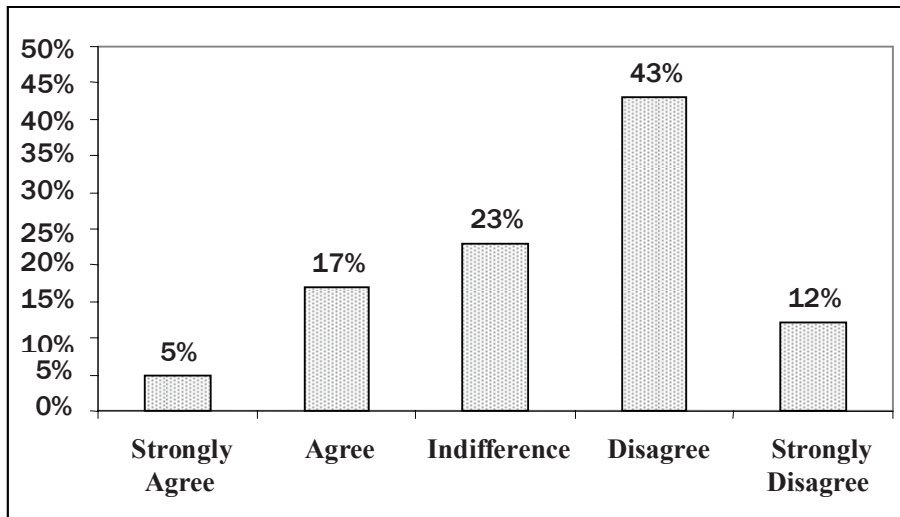
$\chi^2 = 60.140$ with $df = 2$, $p = 0.000 \leq 0.05$, Cramer's $V = 0.274$ at $p = 0.000$

have disagreed, 12 per cent strongly disagreed, and 23 per cent were indifferent to the statement. It means that insurance agents are not only interested in promoting their insurance policies, but also somewhat interested in understanding the needs of customers.

Knowledge and Information about Life Insurance

Knowledge and information about life insurance plays a major role in deciding on the purchase of a life insurance

Figure III Customers' Attitude on Agents' Interest



product. 70.8 per cent respondents have agreed that they had enough knowledge about life insurance before purchasing the policy. 52.7 per cent respondents had felt that buying a life insurance policy is a complex decision. Respondents were also requested to indicate the extent to which they faced difficulty in getting information of life insurance policies. A 5-point Likert scale was used. Only 6.5 per cent customers have strongly agreed that they felt difficulty in getting information about life insurance products, while 27.5 per cent agreed; 24.1 per cent showed indifferent; 36.2 per cent disagreed; and 5.7 per cent have strongly disagreed.

Customers can gather information about life insurance policies from different sources. They were given the commonly used five sources: Friends and Relatives, Websites of Insurance Companies, Insurance Agents, Newspaper/ TV Advertisements, and Printed Materials of insurers and one more option “others” was also given to specify if any. A respondent could select more than one choice. Analysis shows that agents are the major source from where customers could collect information about life insurance policies. 78.2 per cent respondents have accepted that they got information from insurance agents. It is thus understood that agents are not only the distribution channel of insurance companies, but also the source of information. Friends and Relatives come next with 43 per cent of responses. 25.2 per cent customers have got information from websites of insurance companies; 22.6 per cent from newspaper/ TV advertisements; and only 15.1 per cent from printed materials. Less than 1 per cent customers have said that they gathered information from other sources such as hording and self-interest.

The table (Table IV) shows the responses of customers on the understandability of information given by life insurance companies through printed materials, newspaper/ TV advertisements, websites, and agents. Figures are shown in the percentages of the total responses on each source of information. It is understood that four sources, a majority

of 88.2 per cent customers (53.9 per cent strongly agreed and 34.3 per cent agreed) have agreed that information given by insurance agents are clearly understandable. Following it websites of insurers provide more understandable information to customers. The disagreement level is more in case of newspapers and TV advertisements with 11.4 per cent disagreement and 3.6 per cent strong disagreement. An overview of this analysis shows that the agency system is still the major contributor to the growth of life insurance business in India.

Table IV Understandability of Information given by Companies (in per cent)

Medium	Strongly Agree	Agree	Indifferent	Disagree	Strongly Disagree
Printed Materials	16.3	46.9	26.0	07.4	03.4
Newspaper/ TV Ads.	14.7	38.5	31.9	11.4	03.6
Websites of Insurers	23.6	42.6	25.5	05.5	02.7
Insurance Agents	53.9	34.3	06.4	04.6	00.8

CONCLUDING REMARKS

Life insurance is an important part of financial planning of every human being, but understanding insurance, gathering information regarding products and benefits and buying the right product can be tricky. Before purchasing a life insurance policy, majority of customers have compared both the insurance company and the policy. Customers can gather information about life insurance policies from different sources such as Friends and Relatives, Websites of Insurance Companies, Insurance Agents, Newspaper/

TV Advertisements, and Printed Materials of insurers. Most people generally rely on the expertise of their insurance advisor, broker, or sales representative to help them make the right decision, while for some people, insurance representatives have developed a bad reputation. This research revealed that agents are the major source from where customers could collect information about life insurance policies. The system of agents is the major channel of distribution for all life insurance companies and contributor to the growth of life insurance business in India. It is also concluded from the findings of this study that Information given by insurance agents is clearly understandable. On-line purchase has not taken place so far. Few customers have used websites of insurance companies to get information regarding life insurance products. Moreover, this research reveals that technology is in the bottom of the priorities of customers while deciding to purchase. Technology is still to play its role in insurance sector. This research therefore suggests that life insurance companies must exploit the advances of Information Technology to provide better services. The comparative analysis between the public and private sector showed that LIC customers have shown more positive repurchase intention than the private sector customers. This further confirmed the conclusion that level of customer satisfaction is more in public sector than that of private sector.

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