

An Empirical Analysis of Consumer Behaviour on Insurance Products



Management

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P. Mohanraj	Assistant Professor in Management Studies, Nandha Arts and Science College, Erode, Tamil Nadu, India.
K. Gunasekaran	Assistant Professor in Commerce, Nandha Arts and Science College, Erode, Tamil Nadu, India.
S. Pounsamy	Assistant Professor in Commerce, Nandha Arts and Science College, Erode, Tamil Nadu, India.
S. Baby	Assistant Professor in Commerce, Nandha Arts and Science College, Erode, Tamil Nadu, India.

ABSTRACT

Investment is a commitment of funds made in the expectation of some positive return. If the investment is properly undertaken, the return will be commensurate with the risk the investor assumes. Investment goals vary from person to person business to business. While some want security, others give more weightage to returns alone. The business of insurance is related to the protection of the economic values of assets. Every asset has a value. The asset would have been created through the efforts of the owner, in the expectation that, either through the income generated there from or some other output, some of his needs would be met. However, if the assets get lost earlier, being destroyed or made non-functional, through an accident or other unfortunate event, the owner and those deriving benefits there from suffer. The present study aimed that to know the investors attitude towards investment in private insurance companies particularly in Erode district.

INTRODUCTION

People facing common risks come together and make their small contributions to a common fund. The contribution to be made by each person is determined on assumption and past experience. The business of insurance done by insurance companies called Insurers is to bring together persons with common insurance interests (sharing the same risk) collecting the share or contribution (called premium) from all of them and paying out compensations (called claims) to those who suffer. Premium is determined base of various factors like age, amount of cover, period of cover with some additions made for the expenses of administration. The insurer is in the position of a trustee as it is managing the common fund for and on behalf of the community. It has to ensure that nobody is allowed to take undue advantage of the arrangement. That is to say that the management of the business requires care to prevent entry onto the group of people whose risks are not of the same kinds as well as paying claims on losses that are not accidental.

NEED OF THE STUDY

Insurance market is a mechanism through which life and general insurance policies are bought and sold through which large parts of losses to individuals and business communities are met. Insurance is thus bought and sold in a market just as a trade is carried on in material goods. The insurance sector in India has come a full circle from being an open competitive market to nationalization and back to a liberalized market again. Tracing the developments in the Indian insurance sector reveals the 360-degree turn witnessed over a period of almost two centuries. As the insurance sector has developed, there's been a growing acceptance by most policyholders that the assured return era is a thing of the past. This in fact has also been one of the reasons why many investors have shifted to market linked plans. Another positive change has been the increasing level of people buying term plans. This is good from a policyholder's perspective as a term plan offers a higher sum assured at a minimal cost. This was not the case till a couple of years ago.

STATEMENT OF THE PROBLEM

Nearly 80 per cent of Indian population is without life insurance cover, health insurance and non-life insurance continue to be below international standards. And this part of the population is also subject to weak social security and pension systems with hardly any old age income security. This itself is an indicator that growth potential for the insurance sector is immense. A well-developed and evolved insurance sector is needed for

economic development as it provides long-term funds for infrastructure development and at the same time strengthens the risk taking ability. It is estimated that over the next ten years India would require investments of the order of one trillion US dollar. The Insurance sector, to some extent, can enable investments in infrastructure development to sustain economic growth of the country. The increasing importance of knowledge in the Indian insurance industry is likely to make employability a critical factor for retention of qualified managerial manpower in the future. To create such a milieu, insurance companies need to have a critical mass of management that encourages a knowledge-based culture.

OBJECTIVES OF THE STUDY

1. To know the investors' attitude towards investment in private insurance industries.
2. To study the socio economic status of investors in Erode district.
3. To provide valuable suggestions to improve the investment pattern of investors.

REVIEW OF LITERATURE

Gobind N. Ganga (1996) examined the nature of the financial system and the role of life insurance companies in mobilizing and allocating resources for financial and, hence, national development in Guyana. The issues analyzed include life insurance savings, investment behavior of life insurance companies and the potential for the life insurance sector to provide the critical mass for the development of efficient capital markets and national economic development. The analysis suggests that the growth and development of the sector depends on continuous improvement of product and administration/management efficiency, as well as, the provision of a sufficient volume and range of appropriate investment instruments.

RESEARCH METHODOLOGY

The reliability and validity of any research depends upon the systematic method of collecting data and analyzing the same in sequential order. In the present study, an extensive use of both primary and secondary data has been made in order to achieve the objectives of this study. For collecting primary data, field survey technique was employed in the study. First-hand information were collected from 300 investors in various private banks of Erode district. The respondents were selected by using simple random sampling method from the selected district. In order to fulfill the objectives set, a sample study was under-

taken by using a well-framed questionnaire that was duly filled by the respondents. The data collected have been analyzed and interpreted by applying multi-variant statistical tools i.e. Factor Analysis. Factor analysis is used to study the interpersonal relationship factor considered important by the respondent. The purpose of factor analysis is to determine the response to the several numbers of statements, which are significantly correlated.

DATA ANALYSIS AND INTERPRETATION

The study explores the important factors that determine the level of agreement on interpersonal relationship in social networking was depicted in table 1.

Table No. 1

No.	Factors
1	Service quality of insurance company
2	Awareness on insurance products
3	Adequate overall rate of return
4	Accident and medical benefit
5	Safety for investment
6	E-Insurance facilities
7	Availability of investment information is adequate
8	Bonus of insurance products
9	Response of insurance company after maturity period
10	Advertisement on new schemes

In factor analysis, the analytical process is based on a matrix of correlation between the variables. Valuable insights can be gained from an examination of this matrix. If the factor analysis should be proper, the variables must be correlated. If the correlation between all the variables is very low and negligible, then the factor analysis may not be appropriate. In the present study, an inter Correlation Matrix was prepared and the details are shown in table 2 reveals that the correlation between all the variables are in good fit and hence the factor analysis is very appropriate.

Table No. 2
Correlation matrix

Variable	1	2	3	4	5	6	7	8	9	10
1	1.000									
2	.405	1.000								
3	.400	.164	1.000							
4	.264	-.049	.215	1.000						
5	.177	.034	.039	.213	1.000					
6	.165	.063	.207	.239	.542	1.000				
7	-.004	-.106	.099	.124	.076	.111	1.000			
8	-.053	-.070	.194	.275	.134	.187	.410	1.000		
9	-.168	-.065	.128	.223	.030	.092	.110	.322	1.000	
10	.029	.163	.086	.053	.303	.343	-.073	-.062	.138	1.000

The result of the fitness test regarding factor analysis based on Inter Correlation Matrix has been presented in table 3.

Table No. 3

KMO and Bartlett's Test	
Kaiser-Meyer-Olkin Measure of Sampling Adequacy	.589
Bartlett's Test of Sphericity	Approx. Chi-Square
	Df
	Sig.
	.517.818
	45
	.000

Table 3 exhibits the KMO results. If the values of this test stand very small or low, it indicates that the correlation among the variables is not satisfactory and factor analysis will not be suitable. But as apparent in table 3, the value is 0.589 which is not less than 0.5 and hence satisfactory. So, the factor analysis for the present study is effective and suitable.

In the present study, the data matrix comprising a large number of identified variables which are inter-related have been tested for the amount of variance that each variable shares with all other variables and the same has been presented in table 4.

Table No. 4

Communalities		
	Initial	Extraction
VAR00001	1.000	.790
VAR00002	1.000	.545
VAR00003	1.000	.593
VAR00004	1.000	.406
VAR00005	1.000	.748
VAR00006	1.000	.703
VAR00007	1.000	.557
VAR00008	1.000	.648
VAR00009	1.000	.813
VAR00010	1.000	.685

Extraction Method: Principal Component Analysis.

The communalities shown in table 4 measure the amount of variance a variable shares with all other variables. It is a proportion of each variable's variance as explained by the principal component. A large communality means a large amount of the variance a variable has extracted by the factor solution. It shows that variables with a comparatively higher value are well-represented in the common factor space, while the low value variables are not. Thus, the table indicates that the extracted communalities are high and acceptable for all the variables.

It is necessary that the scale constructed and the components extracted should be able to explain the variance in the data. To analyse this variance, the eigen values are calculated. A low eigen value contributes very little to the explanation of the variances in the set of variables being analysed. The sum of eigen values, as expected, is equal to the number of variables being analysed. To measure the important factors determining the level of agreement on the interpersonal relationship practices, the initial eigen values, extraction sums of squared loadings and the rotation sums of squared loadings have been presented in table 5.

Table No. 5

Total Variance Explained									
Component	Initial Eigen values			Extraction Sums of Squared Loadings			Rotation Sums of Squared Loadings		
	Total	% of Variance	Cumulative %	Total	% of Variance	Cumulative %	Total	% of Variance	Cumulative %
1	2.354	23.539	23.539	2.354	23.539	23.539	1.835	18.348	18.348
2	1.733	17.327	40.865	1.733	17.327	40.865	1.722	17.220	35.568
3	1.377	13.772	54.638	1.377	13.772	54.638	1.699	16.995	52.563
4	1.024	10.244	64.882	1.024	10.244	64.882	1.232	12.319	64.882
5	.892	8.923	73.805						
6	.718	7.177	80.982						
7	.615	6.151	87.133						
8	.502	5.017	92.151						
9	.439	4.394	96.544						
10	.346	3.456	100.000						

Extraction Method: Principal Component Analysis.

Table 5 shows that though there are 10 variables that can be extracted, but only three variables can be extracted among the 10 variables which have eigen value more than one. By retaining only those variables with eigen values greater than one, it can be inferred that 23.539 percent of variance is explained by variable 1, 17.327 percent of variance is explained by variable 2 and 13.772 percent of variance is explained by variable 3 and 10.244 percent of variance is explained by variable 4. Thus all the four variables put together explain the variance to the extent of 64.882 percent.

Extraction sum of squared loadings is also used for measuring the important factors determining the level of agreement on the interpersonal relationship practices. Table 5 also indicates that the total of 64.882 percent variance is not uniformly distributed across all the variables, since it is evident that only the first component accounts for 23.539 percent variance. As the variables are not uniformly distributed, the rotated sum of squared loadings method is used to distribute the variables uniformly across all the factors whose eigen value is more than one.

Hence, to show the components loading which are the correlations between the variables and the components, component matrix has been presented in table 6.

Table No. 6

Component Matrix ^a	Component			
	1	2	3	4
VAR00006	.713			
VAR00005	.620			
VAR00004	.583			
VAR00003	.526			
VAR00002		.615		
VAR00008		-.607		
VAR00001		.580		
VAR00007		-.514		
VAR00010			-.560	
VAR00009				.682

Extraction Method: Principal Component Analysis. a. 4 components extracted.

Table 6 shows that the components loading that are the correlations between the variables and the components. This is the central output of the factor or principal component analysis, which can be taken as the basis for inputting a label to the different factors of components. It is a general practice that while interpreting a component, importance is given to the larger size of the component loading for a variable. Also, the first component is generally more highly correlated with the variables than the second and so on. Thus, it can be seen from table 5 that the variance is now evenly distributed in a range of 18.348 – 64.882 percent, which was earlier 23.539 – 64.882 percent. Varimax rotation (Rotated Component Matrix) was applied for all the 10 variables. However, the factor loading of all the variables was observed and clubbed into four factors, which has been presented in table 7.

Table No. 7

Rotated Component Matrix ^a	Component			
	1	2	3	4
VAR00005	.846			
VAR00006	.808			
VAR00010	.617			
VAR00001		.826		
VAR00003		.692		
VAR00002		.664		
VAR00007			.739	
VAR00008			.735	
VAR00004				
VAR00009				.878

Extraction Method: Principal Component Analysis.

To test the reliability of the data, Cronbach's Co-Efficient Alpha has been presented in table 8.

Table No. 8
Reliability Statistics

Cronbach's Alpha	N of Items
.719	10

Cronbach's coefficient alpha will generally increase when the correlations between the items increase. For this reason, the coefficient is also called the interval consistency or internal consistency reliability of the test. A value below 0.5 is termed as unsatisfactory. As mentioned in table 8, the interpreted value is 0.719 which is good enough and thus the table indicates that the scale is reliable and can be used in future.

The Cronbach's Alpha reliability test result indicated that all the variables scored 0.719 and it was more than acceptable range of 0.70.

SUGGESTIONS

- The majority of the respondents are employed; this is the core market segment which should be concentrated on.
- Since Security and Return is the main expectation of investors, it is suggested that this aspect be reinforced while wooing prospective investors.
- It is suggested that monthly premium suggested must not exceed 20 – 25 % of the income keeping in mind the quarterly premium payment must be suggested while approaching prospective clients.
- The awareness of LIC is most and other private insurance companies remains untapped. It is suggested that an attempt be made to bring out the advantages of other companies and schemes.
- Only few Respondents have planned to go for private life insurance, so the schemes and advantages of private insurance companies must be promoted greatly.
- While dealing with prospective investors, according to their occupation the objective on investment varies, so this factor should be considered the most.
- The awareness of market linked schemes to the people is low. The respondents who prefer return as their investment option will prefer market linked plans when its advantages known, so steps should be taken in this area to create good awareness.
- Since most of the respondents prefer only certain schemes, all the other schemes available in the market should be promoted and the insurers must be updated on the highlights of the schemes.

CONCLUSION

The last few years have been a watershed for assured return plans. As the insurance sector has developed, there's been a growing acceptance by most policyholders that the assured return era is a thing of the past. The private insurance companies are focusing on the Market Linked Plans. The insurance sector and the state have to act together in order to create incentives for building and business owners to take loss prevention measures. A further challenge for the insurance sector is to transfer a portion of the risk to the capital markets, and to serve better the needs of the poor.

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