



## ORIGINAL RESEARCH PAPER

Commerce

### AN EMPIRICAL STUDY ON POLICYHOLDER'S REASONS FOR INVESTING IN LIFE INSURANCE POLICIES: A STUDY WITH SPECIAL REFERENCE TO LIFE INSURANCE CORPORATION OF INDIA

**KEY WORDS:** Investment, Risk coverage, Policies, Survival benefits.

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#### ABSTRACT

Indian insurance industry is successful with number of national and global players in the form of Joint ventures are excelling with the exponential growth in business. With government infusing several rules and regulations, Insurance industry has been experiencing tremendous progress in terms of growing number of customers with sizeable number of new entry of companies into the sector. The study attempts to measure the investment preferences and reasons for investing in life insurance policies. The primary research was conducted through a market survey consisting of 359 respondents from Coimbatore city in Tamilnadu. The study reveals that the respondent's purpose of investing in life insurance repeatedly was to avail tax benefits, risk coverage and as an investment.

#### I. INTRODUCTION

"The Business of Insurance is related to the protection of the economic values of the assets". Life insurance is a financial product, which is generally meant for risk coverage and it is a contract between the insurer and insured for the payment of a sum of money to the person insured for the loss arising from the risk insured against. In return the policy owner agrees to pay a stipulated amount at regular intervals or in lump sum. Life insurance has emerged as the most vibrant segment in the financial sector in India. After the entry of private players in the business of insurance in the country, insurance market has taken a new turn. In the field of life insurance business, the Life Insurance Corporation of India has been maintaining its leadership position.

#### II. Review of Literature

**Harrish Kumar(2013)**, in his study on customer perception towards life insurance corporation of India, Even with the stiff competition in the market place, it is evident from the study that products offered by the LIC are creative, innovative and of the liking of the customers, moreover they are satisfied by the true knowledge provided by the company, Flexible payment schemes with no hidden cost, customers are highly satisfied by the grievance redressal mechanism, and in the near future if they will go for the policy they will stuck to LIC of India.

**Ghorpade and Deshmukh (2012)** analyzed the customer perception, purchase behavior and consumer awareness regarding the life insurance industry. It was found that only 5.6% purchased the policy as a risk cover, while the remaining for tax purpose and/or investment purpose. LIC was the preferred insurance company.

**Singhand Lal(2011)** threw light on the investment strategy of LIC through his study. This study provides directions to LIC's investments and also guides such activities that are significant in strategy formulation. LIC's broader perspective in investment is pertaining to social, economical and welfare programmes.

**Raju Satya R. (2004)**, Found that the insurance agents, development officers' employees, executives at different levels should work together to achieve the objectives and mission and also to face the present and future competition as a challenge. The insurance product and services should be designed and offered as per the customer requirements.

**Babita and Anshuja (2012)** stated that LIC is the most accepted and popular brand in life insurance, the market share of private insurers are gradually increasing with people trust and better services offered by them are some of the main findings of the study.

#### Statement of the problem

Customers needs and requirements have changed substantially over the last few decades. Modern goods and services are recognized as essentially psychological things which are symbolic

of personal attributes, needs, goals and social patterns of strivings (Levy S.J 1959). Life Insurance is a customer based business and withholding the existing customers is the biggest confront. The conditions have enabled the insurance industry to undergo a significant transformation with noticeable trends. In this scenario LIC needs to know the customers reasons for investing in life insurance policies, what motivates them insure and to identify the major features of life insurance policies. Based on the issues the study is attempted.

#### Objectives of the study

- To investigate the reasons influencing customers to take life insurance.
- To study and rank the reasons responsible for taking of life insurance.

#### III. Research Methodology

##### Research Design:

A research design is a framework or plan for a study that is used as a guide in collecting and analyzing the data.

Particulars	Research Design
Area of the Study	Coimbatore City
Sample size	359 - LIC Policy holders
Nature / Type of the Study	Descriptive Research
Sampling Technique	Random sampling method

##### Data Collection Technique:

Primary data were collected through personal interview with the insurance policy holders. The secondary data were collected from reports and publications of IRDA, and from various journals, magazines, websites, etc.

##### Data Analysis:

The data collected were analyzed statistically. Frequency and percentages were used to know the distribution pattern. The Friedman test, a non-parametric statistical test, is used to detect differences in treatments across multiple test attempts. The procedure involves ranking each row (or block) together, then considering the values of ranks by columns.

#### IV. Data Analysis and Interpretation

Investment goals diverge, depending on age, income and outlook. Investment goals can be either short-term or long-term. There are wide range of investment options are available like shares, bonds, gold, insurance, real estate etc.,

##### I Investment Preferences of the Respondents

Investment is the purchase of a financial product or other item of value with an expectation of favourable future returns. (Aparna Samudra, 2012). The RBI classified the household savings into two basic heads namely Financial assets like investments in shares and mutual funds, insurance, bank deposits etc. and Physical assets i.e., in real estate and gold. The study analyses the investment preferences of the respondents in order to understand their preferences for life insurance as an avenue for savings.

**Table 1: Investment Preferences of the Respondents**

Investment Avenues	Respondents	
	Mean	Rank
Gold	4.10	7
NSC	2.58	10
Shares	7.97	1
Mutual fund	7.32	4
Public provident fund	3.92	8
Health insurance	5.44	5
Real estate	3.75	9
Post office recurring deposit	4.30	6
Bank deposits	7.86	2
Life Insurance	7.76	3
<b>Chi-square value</b>	1.475	
<b>df</b>	9	
<b>p</b>	0.000	
<b>n</b>	359	

Friedman's test was applied to determine whether the respondents have a differential rank ordered preference for the investment avenues. The results indicate that there exists a highly significant differential rank order of preference for the investment avenues. By considering the responses investing in shares (7.97) was ranked first and second rank was assigned to Bank deposits (7.86). The life insurance (7.76) was assigned third rank by the respondents.

#### Attractive Features of LIC in comparison with Private Insurance

The study analysed the respondents view on attractive features of LIC in comparison with private insurance.

**Table 2: Attractive Features of LIC**

Features	Respondents (n=359)	
	Mean	Rank
Public sector under taking	2.82	9
Brand value	4.45	7
Protection / Sovereign guarantee	4.06	8
Motto of the LIC	4.76	6
More risk coverage	6.37	1
Motivation from agents	6.03	2
Multiple schemes	5.42	4
Trust in management	5.07	5
Customer service	6.01	3
<b>Chi-square value</b>		484.356
<b>df</b>		8
<b>P</b>		0.000
<b>n</b>		359

The table 2 depicts the respondents' view about the attractive features of LIC and it is ranked in their order of preference based on the mean values. The most striking feature of the LIC is more risk coverage (6.37), motivation from their agents (6.03) and customer service (6.01). The results of Friedman's test indicated that there exists highly significant differential rank order of preference for the attractive features of LIC among the respondents. The prime attractive feature among respondents

**Table 4: Purpose of Repeated Investment in Policies of LIC**

Purpose	First policy		Second policy		Third policy		Fourth policy		Fifth policy	
	N	%	N	%	N	%	N	%	N	%
Education	25	6.96	7	6.54	5	8.06	2	4.76	0	0.00
Tax benefit	149	41.50	47	43.93	8	12.90	7	16.67	2	11.11
Marriage	24	6.69	6	5.61	6	9.68	4	9.52	3	16.67
Survival benefit	18	5.01	4	3.74	6	9.68	3	7.14	2	11.11
Regular savings	35	9.75	12	11.21	5	8.06	6	14.29	2	11.11
Risk coverage	53	14.76	10	9.35	8	12.90	5	11.90	3	16.67
Investment	15	4.18	9	8.41	7	11.29	6	14.29	4	22.22
Old age needs	13	3.62	3	2.80	8	12.90	5	11.90	0	0.00
Protect mortgaged property	16	4.46	4	3.74	5	8.06	4	9.52	0	0.00
Peace of mind	11	3.06	5	4.67	4	6.45	0	0.00	2	11.11

Source: Primary data; N = Number of respondents; % = Percentage

about LIC was risk coverage.

#### II. Reasons for Investing in Life Insurance Policies

Needs identified with life insurance were protection, aid to thrift, liquidity, tax relief, wealth tax and to meet monetary needs that may arise from time-to-time (Ganesh Dash and Tulika Sood, 2013).

#### Motives for investing in LIC

The study analyses the investment motives of the respondents regarding investment in LIC and also for repeated insurance in LIC (Table3).

**Table 3: Reasons for Investing in Life Insurance Policies**

Investment Motives	Respondents (n=359)	
	Mean	Rank
Lump sum amount on maturity	6.18	5
Family protection	3.96	10
Survival benefit	5.36	8
Savings	3.64	11
Loan facility	7.48	2
Provision for old age	6.09	6
Children's welfare	5.35	9
Health insurance cover	6.31	4
Bonus	5.87	7
Tax benefit	7.44	3
Risk cover	8.32	1
<b>Chi-square value</b>		663.290
<b>df</b>		10
<b>P</b>		0.000
<b>n</b>		359

Respondents major reason for investing in life insurance policies was risk coverage (8.32). Second rank was allocated to loan facility (7.48), third rank was assigned to tax benefit (7.44). Results of Friedman's test indicated that there exists a statistically significant differential rank order of preference for the investment avenues between among respondents. Risk cover is the prime motive for investing in LIC for the respondents. Apart from risk cover, respondents invested for loan facility and tax benefit.

#### Purpose of Repeated Investment in LIC

Customers, who have been around long enough to get familiar to the company's procedures, will create more valuable business relationships, will acquire more products and will be less price sensitive on individual offers (Reichheld and Teal, 1996). The study analyses the purpose of repeated investment in LIC by the sample respondents and were presented in Table 4.

From the table 4 it is clearly understood that the respondents assured their life with LIC through various types of policies in order to fulfill their various financial needs. The first policy was primarily for the purpose of tax benefit (41.50 percent) and risk coverage (14.76 percent). The second policy was also taken for the purpose for tax benefits (43.93 percent) and savings (11.21 percent). The third policy also for tax benefits (12.90), risk coverage (12.90 percent), old age needs (12.90 percent). The above table revealed the fact that respondent's purpose of investing in life insurance repeatedly was to avail tax benefits, risk coverage and as an investment.

**CONCLUSION**

It is understood from the above discussion that respondent's purpose of investing in life insurance repeatedly was to avail tax benefits, risk coverage and as an investment. Thus it can be inferred that the longer the customers remain with the company, the higher is the probability of repurchasing of various types policies to suit their needs.

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