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FACTORS INFLUENCING INSURANCE CONSUMPTION - A LITERATURE REVIEW

KEY WORDS:

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ABSTRACT

Insurance is social in nature as it represents the cooperation of various individuals for mutual benefits to reduce the consequences of similar risks. After opening up for private players in 1999, Insurance sector in India has been growing continuously. In most of the empirical studies, the amount of life insurance purchased is viewed as a function of numerous variables. These variables, explored through a variety of different approaches and data, explained the significant factors that influence the life insurance purchase decision. This paper chronicles the research done on the factors influencing the consumption of insurance. This paper provides a rich source of information to Insurance providers, seekers, researchers, and regulatory authorities.

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Factors that drive insurance consumption

1. **Menahem E. Yaari (1965)** has developed a theoretical framework which explains the demand for life insurance. In this framework the demand for life insurance is attributed to a person's desire to bequeath funds to dependents and provide income for retirement. It posits that the demand for life insurance is a function of wealth, expected income over a person's lifetime, interest rates, the cost of life insurance policies, and assumed subjective discount rate for current over future consumption.
2. **Hammond et al (1967)** found out through a household survey that life insurance consumption is hugely influenced by the family life cycle, income of the family, net worth, education standard and respective occupations of the customers.
3. **Mantis & Famer (1968)** observed that marriages have effect on life insurance demand but contrary to the expectation, it is negative. They expect that married men spend more money on life insurance than single men as they want to protect their dependents of death risk of family breadwinner. The explanation of the empirical results could state that unmarried individuals have more disposable income and thus more resource to buy life insurance than those married.
4. **Hakansson(1969)** and Campbell (1980) along with Lewis have derived a positive correlation between income and life insurance purchasing decision of the consumers.
5. **Berekson (1972)** observes the impact of age, marital status, number of children financially responsible, gross income, birth order among siblings and parents' divorce on life insurance consumption by using regression analysis in 1969. They find that while age, number of children and birth order variables have significant effects on demand for life insurance, income is not significant for one survey and significant for another.
6. **According to Fortune (1973)**, the income, net worth and the customer's confidence have an influence on the consumption of life insurance. Customer emotions, savings and policy price play a major role in determining the consumption level of life insurance.
7. **Anderson and Nevin (1975)** found out the result that there is no significant association between family size and the purchase of life insurance using the data of Consumer Decision Processes in 1968-1971.
8. **Wasaw and Hill (1986)** analysed the effect of Islam on life insurance consumption using an international data set. The results of their study indicate that, ceteris paribus, consumers in Islamic nations purchase less life insurance than those in non-Islamic nations.
9. **K. Meena (1986)** in her dissertation titled "Utilization of life insurance by policy holders of Madurai city" has studied the utilization of LIC products by policy holders, and analyzed the various factors which influence the level of utilization. She has concluded that unless LIC makes its schemes attractive and effective, with good returning capacity and high bonus to the policy holders, it is bound to fail in its operations. She has also suggested that heavy expenditure has to be curtailed so that LIC can pay better returns. LIC has come out with different products to suit investor's needs. The Indian insurance industry is slowly emerging as a destination to the insurance markets all over the world.
10. **Lewis (1989)** explains that the life insurance demand is determined by maximization of the beneficiaries 'expected lifetime utility. Protection of dependent members of family against financial hardship in the case of a wage earner's premature death is important motive of buying life insurance. Thus, higher number of dependents implies increasing demand for life insurance. Numerous family members may limit the wage earners' financial sources, implying negative effects of families' members on life insurance consumption.
11. **Truett et al. (1990)** discussed the growth pattern of life insurance consumption in Mexico and United States in a comparative framework, during the period 1964 to 1984 and they assumed that at an abstract level demand depends upon the price of insurance, income level of individual, availability of substitute and other individual and environment specific characteristics. They have also experimented with demographic variables like age of individual insured and size of population within the age group 25 to 64 and considered education level to have some bearing on insurance consumption decision. Their results show the existence of higher income inelasticity of demand for life insurance in Mexico at low income levels. Age, level of education and income were significant factors affecting the demand for life insurance in both the countries.
12. **Burnett and Palmer (1991)** have used Multiple Classification Analysis to examine how well the demographic and psychographic characteristics relate to different level of life insurance ownership. The life insurance owners normally have higher education levels, larger number of family member and incomes. They may not be opinion leader and risk takers. They also do not care about the prices. The authors proved that demographic and psychographic variables are important to predict the life insurance consumption.
13. **Browne & Kim (1993)** used the ordinary least squares (OLS) to evaluate the relationship between insurance consumption and education. The results showed that the level of education

is positively and significantly correlated to the life insurance consumption.

14. **Showers and Shotick (1994)** examined the social and economic factors on insurance purchasing decision. They found that income has a positive relationship with the demand for insurance. With the increase in the size of family and age it will decrease in insurance expenditure. The authors also found that the family size and insurance premium expenditures have a positive relationship.
15. **Gandolfi & Miners (1996)** investigate influence of gender on life insurance consumption. Namely, demand for insurance could vary among men and women based on difference in lifetime. Following the assumption that the insurance demand is increasing with probability of death and the fact that men live shorter than women, they will demand insurance more.
16. **Outreville (1996)** found that individuals with higher level of education are more aware of risk and the importance of risk management. Thus, education increases risk aversion and encourages people to demand life insurance. Additionally, individuals with higher education have higher income and can expect that the income will continue to increase at faster rate and in long term compared to those of lower level of education. Consequently, more life insurance will be purchased by more educated individuals.
17. **Michael Theil (2001)** analyses the demographic variables and the appraisal of insurance with a case analysis, pertaining to assistance products. A consumer survey was conducted to find the demographic characteristics and the related assistance products. It also analyses the consumer's judgment towards new class of insurance products. The study reveals that variables used in the survey are different and there is a weak relationship between consumer's judgment and class of products. As demographic Variables are not performing as expected it seems advisable to focus on alternative factors.
18. **Ward and Zurbruegg (2002)** examined panel data from the OECD and Asia region for the period between 1987 and 1998 using OLS regression analysis. They contended that the most developed economies experience higher levels of life insurance consumption because they possess a high level of income and low level of inflation rate.
19. **Hwang and Greenford (2005)** examine determinants of life insurance consumption in China, Hong Kong and Taiwan. They find that income, education and economic development have positive effect on demand for life insurance. Social structure and one child policy have negative impact on life insurance consumption. However, social security and price have no significant effect on demand for life insurance.
20. **Namasivayam, Ganesan, S. and Rajendran, S. (2006)** examined the socioeconomic factors that are responsible for purchase of life insurance policies and the preference of the policyholders towards various types of policies of Company. From the analysis, it was found that factors such as age, educational level and sex of the policyholders are insignificant, but income level, occupation and family size are significant factors for the purchase of LIC products.
21. **Chukwulozie (2006)** explains that low level of income, low level of education, lack of insurance awareness, high inflation rate, lack of reliable Actuarial data for research and underdeveloped financial market had affected savings for life insurance consumption. Although, his work was based on life insurance as a source of long term savings, there is no empirical evidence to justify his work.
22. **Hansanbanu, and Nagajyothi, (2007)** examined that there is significant relationship between age, educational qualification, gender, occupation and income of respondents and their level of investment with taking LIC policies and in their study they also found that there is no significant relationship between marital status, family type and family size and their investment in insurance sector.
23. **Li et al. (2007)** analyzed life insurance consumption by using cross section data for 30 OECD countries for the period between 1993 and 2000. They indicated that income, number of dependents, highest education level, financial development and degree of competition have a positive relationship with life insurance consumption.
24. **Seibel and Mustafa (2009)** investigated the determinants of demand for life insurance on cross section of 31 European countries. They found that income is the most important variable which affects consumption of life insurance. Their result showed that income per capita has positive and significant effect on demand for life insurance, which 1% increase in income per capital will lead to increase the demand for life insurance increase by 1.91%.
25. **B.Das, S. Mohanty & Nikhil Chandra Shil, (2008)** examined Behavior of Retail Investors in Mutual Fund vs. Life Insurance. 100 interviews were made from two metros of Orissa Viz.; Cuttack and Bhubaneswar. This research fins that, although the investment patterns provide more or less the same services, there exist differences depending on the education level of investors. It was also found that male investors are more compared to female investors. Maximum investors like to invest in life insurance among which LIC is no. 1 followed by mutual fund and government saving schemes. It also reveals that Government servant invest more in life insurance.
26. **Ibiwoye et.al (2010)** on their study examined the determinant of life insurance consumption in Nigeria during the period 1970 – 2005 within an error correction framework. They found that real gross domestic product and structural adjustment policy positively and significantly influence Life Insurance consumption in Nigeria while indigenization policy and domestic interest rate are statistically significant but inversely related to Life Insurance consumption. On the other hand, they discovered that return on investment, inflation rate, openness of the economy and political instability are insignificant predictors of Life Insurance consumption in Nigeria.
27. **Loke and Goh (2011)** on their study on demand for life insurance in Malaysia identified that socio-economic factors such as age, income, education, occupation, marital status and risk aversion play significant roles in the demand for life insurance. However, gender and number of dependents are found to have no significant influence on the demand for life insurance.
28. **Munir and Khan (2012)** in their study on impacts of macroeconomic & demographic variables on the demand of life insurance in Pakistan identified that financial development, gross savings, income level are directly linked to life insurance demand while, price of insurance are inversely linked with life insurance demand and the demographic variables of crude birth rate, crude death rate, old age dependency ratio, urbanization are positively related with life insurance demand for Pakistan.
29. **Yiing and Yi (2012)** found that number of dependents play a significant role in the quantity of insurance purchased. According to their results, they found that a respondent who has more dependents are more likely to purchase more life insurance.

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