

## A Study On Factors Affecting Investment Decision In Life Insurance Policies

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### ABSTRACT

Human life is a most important asset and life insurance is the most important type of insurance which provides financial protection to a person and his family at the time of uncertain risks or damage. Life insurance provides both safety and protection to individuals and also encourages savings among people. People's perception of insurance has also changed from an instrument of saving to a risk-hedging tool. This change has been facilitated by the emergence of a range of new insurance products suiting the diverse needs of consumers. LIC of India plays a vital role in the welfare of human well-being by providing insurance to millions of people against life risks such as uncertain death or accident. The present exploratory and descriptive based study was selected with an objective to identify those factors which influence customers policy buying decision and also analyze the preferences of customers while life policy investment decision-making. The data for the study has been collected from both primary and secondary sources. The study area is limited to Thrissur district and the sample size is 150 insurance policyholders of by using purposive sampling method. The paper concludes with that demographic factors of the people play a major and pivotal role in deciding the purchase of life insurance policies.

**KEYWORDS:** Customers, Life Insurance Policies, LIC, Investment, Socio-Economic Factors.

### INTRODUCTION

Life is a synonym to uncertainty and has become prone to a contingency at any point in time. Any injury or accident can happen to anyone of us or our loved ones at any point in time. The material value of our life or immortal possessions of ours cannot be correctly estimated but of course, we can keep a backup in case something fatal happens to them. This very function is served by insurance that provides us with mental and financial security and makes our life easier in case some contingency happens. Life insurance is a must for everyone because life is very precious. With a population of over one billion, India is a land of opportunities and a market for big business. Privatization witnessed dynamic changes in the insurance industry and most of the private insurance companies are joint ventures with recognized foreign players across the globe. Customers are the main pillar of life insurance business. Every company tries to attract and retain existing customers to keep their profits high. When compared with the developed foreign countries, the Indian life insurance industry has achieved only a little because of low consumer awareness, poor affordability, delayed customer services, lack of suitable products. In today's cut throat competition, it

becomes essential for life insurers to provide better customer services, spread more awareness, emphasis on need based innovative products and reasonable price. So that, every individual may avail the benefits of insurance and protect their lives against future uncertainties. The present paper is an attempt to analyse the factors influencing investment decision in LIC.

## REVIEW OF LITERATURE

Athma. P and kumar. R (2007) in the research paper titled "an explorative study of life insurance purchase decision making: influence of product and non-product factors". The empirical based study conducted on 200 sample size comprising of both rural and urban market. The various product and non-product related factors have been identified and their impact on life insurance purchase decision-making has been analyzed. Based on the survey analysis; urban market is more influenced with product based factors like risk coverage, tax benefits, return etc. Whereas rural population is influenced with non-product related factors such as: credibility of agent, company's reputation, trust, customer services. Company goodwill and money back guarantee attracts many people for life insurance.

Girish kumar and eldhose (2008), published in insurance chronicle icfai monthly magazine august 2008 in their paper titled "customer perception on life insurance services: a comparative study of public and private sectors", well explained the importance of quality services and its significance in raising customer satisfaction level. A comparative study of public and private sectors help in

understanding the customer perception, satisfaction and awareness on various life insurance services.

Jayakar (2003) in his study emphasized that new products innovation; distribution and better use of technology are helping the new private life insurers to take market share away from lic, a only company before liberalization of insurance industry. With the privatization of insurance sector and with the entrance and cut throat competition with the private sectors gaining an ever increasing edge over the public sector.

Narayan. H. Jai (2009), in an article has made an emphasis on importance of customer in the business of insurance. He explained in phase of growing market competition, there is an intense need to go beyond mere efficiency in designing products. To understand the customer's needs and to convey what they have to offer would perhaps bring in higher efficiencies in customer service. Insurance business revolves around the customer and fair treatment to customers is need of an hour to win their loyalty and trust. In a service based organizations, customer service is the most dominating feature that differentiate and gives good return to the insurers. Proper dealing with customer complaints, effective customer grievances handling mechanism and fast claim settlement procedure are some of the ways through which satisfaction level of customers can be increased. Hence to serve the customers promptly and effectively is the key success of a life insurance business.

Praveen kumar tripathi (2008), in his summer training project report titled

“customer buying behavior with a focus on market segmentation” conduct a research based study on buying pattern in the insurance industry with a special focus on hdfc standard life insurance. The various segments of the markets divided in terms of insurance needs, age groups, satisfaction levels etc were taken into account to know the customer perception and expectation from private insurers.

### **OBJECTIVES OF THE STUDY**

1. To explore the various factors influencing customer's investment decision in life insurance.
2. To study and analyze the impact of various demographic factors on customers life insurance investment decision.
3. To evaluate preferences of the customers while taking life insurance investment decision.

### **HYPOTHESIS**

1. Age and income has no significant impact on the customer life insurance investment decision.
2. Occupation and gender are independent of the customer life insurance investment decision.

### **RESEARCH METHODOLOGY**

Both primary and secondary data are used for the study. The primary data has been collected from

150 policyholders of S N puram panchayath of Thrissur district by using a well structured questionnaire. The purposive sampling technique is used to select the sample. The secondary data has been collected from irda annual reports, insurance journals, magazines and insurance website. For analyzing the collected data a number of statistical techniques including chi-square, correlation, weighted average score have been used for the testing of hypotheses.

Demographic factors such as age, income, occupation and gender are some of the important determinant in the decision of life insurance. The demographic profile of the respondents is analyzed on the basis of age, monthly income, gender and occupation. The distribution of sample respondents is shown in table no. 1 and it is quite evident from the table that a majority of the respondents (52%) fall in the age band of 30-40 years. Out of 150 sample drawn, 108 (72%) are male and it depicts the domination of male in the life insurance sector. Occupation-wise, around 44% respondents are govt. Employee followed by private/businessman, professionals, agriculture occupied respondents with 18.6%, 14.6% and 22.8% respectively.

H1: age and income has a significant impact on the customer life insurance investment decision.

**DATA ANALYSIS & INTERPRETATIONS**  
**TABLE 1**

**DEMOGRAPHIC DETAILS OF THE RESPONDENTS (IN PERCENTAGE)**

<b>Basis</b>	<b>Respondents</b>	<b>Percentage</b>
<b>Age</b>		
20-30	39	25.3
30-40	78	52
40-50	30	20
Above 50	03	2
Total	150	100
<b>Monthly income</b>		
5,000-10,000	18	12
10,000-15,000	29	19.3
15,000-20,000	48	32
20,000-25,000	32	21.3
Above 25,000	23	15.3
Total	150	100
<b>Occupation</b>		
Govt. Class employee	66	44
Businessman/private	28	18.6

Professionals	22	14.6
Agriculture	34	22.8
Total	150	100
<b>Gender</b>		
Male	108	72
Female	42	28
Total	150	100

Source: primary data

**TABLE 2**

**CALCULATION OF COEFFICIENT CORRELATION BETWEEN AGE OF RESPONDENTS & LIFE INSURANCE INVESTMENT DECISION**

Age	X	$Dx = (x - 40)$	$Dx^2$	Y	$Dy = (y - 38)$	$Dy^2$	$Dxxdy$
20-30	25	-15	225	39	1	1	-15
30-40	35	-5	25	78	40	1600	-200
40-50	45	5	25	30	-8	64	-45
Above 50	55	15	225	03	-35	1225	-525
Total	160/4=40	0	500	150/4=37.5	0	2890	785

here, the value of correlation (r)  
 Correlation ( r ) =  $785/1202.08=0.65$   
 since the calculated value of r is positive, it is concluded that there is a significant relationship

between age and customer insurance investment decision. Hence age affects the customer life policy buying decision.

**TABLE 3****CALCULATION OF COEFFICIENT CORRELATION BETWEEN MONTHLY INCOME OF RESPONDENTS & LIFE INSURANCE INVESTMENT DECISION**

Monthly income	X	Dx=(x-175))	Dx <sup>2</sup>	Y	Dy(y-30)	Dy <sup>2</sup>	Dxxdy
5000-10,000	7500	-100	10000	14	-16	256	-1600
10,000-15,000	12500	-50	2500	37	07	49	-350
15,000-20,000	17500	0	0	54	24	576	0
20,000-25,000	22500	50	2500	29	-1	1	-50
Above 25,000	27500	100	10000	16	-14	196	-1400
Total	87500/5=17500	0	25,000	150/5=30	0	1078	3400

here, the value of correlation (r) correlation (r) =  $650/3612.4 = 0.65$

Since the calculated value of r is positive, it is concluded that there is a significant relationship between monthly income and customer insurance

investment decision. Hence income is one of the important determinants in customer life policy buying decision

**TABLE 4****CALCULATION OF ASSOCIATION BETWEEN OCCUPATION OF RESPONDENTS AND LIFE INSURANCE INVESTMENT DECISION**

Occupation	Investment decision			Total
	High	Medium	Low	
Govt. Service	38	22	6	66
Businessman/private service	18	8	2	28

Professionals	14	6	2	22
Agriculture	21	9	4	34
Total	91	45	14	150

chi – square test  $(x^2) = (o - e)^2 / e$  Degrees of freedom =  $v = (r - 1) (c - 1)$  were,  
 here  $x^2$  calculated =  $(o - e)^2 / e = 14.09$   
 at 5% level of significance for 6 df, the calculated value of chi-square is 12.59

Since the chi-square calculated > chi-square tabulated, it is concluded that there is a no significant association between occupation and customer insurance investment decision. Hence occupation does not influence the customer life policy buying decision.

**TABLE 5**

**CALCULATION OF ASSOCIATION BETWEEN GENDER OF RESPONDENTS AND LIFE INSURANCE INVESTMENT DECISION**

Gender	Investment decision			Total
	High	Medium	Low	
Male	72	28	8	108
Female	26	10	6	42
Total	98	38	14	150

here  $x^2$  calculated =  $(o - e)^2 / e = 1.66$   
 at 5% level of significance for 2 df, the calculated value of chi-square is 5.99

Since the chi-square calculated < chi-square

tabulated, it is concluded that there is a significant association between gender and customer insurance investment decision. Hence gender influence customer life policy buying decision.

**TABLE 6: PREFERENCE TOWARDS LIFE INSURANCE COMPANIES**

Responses	No. Of respondents	Percentage
L.i.c.	82	54.6
Hdfc standard life insurance	10	6.6
Icici prudential	16	10.6
Sbi life	22	14.6
Bajaj allianz	12	8.0
Others	08	5.3
Total	150	100

Interpretation: it is revealed from the table no. 6 a majority (55%) of the respondents preferred to buy policy from lic, followed by the 14.6% and 10.6% of respondents preferred to buy from sbi life insurance, icici prudential life respectively. Remaining 8% and 10.6% of the respondents preferred bajaj allianz and hdfc standard life insurance respectively. The left 5.3% respondents preferred other than these life insurance companies. Thus it can be inferred that lic of india is the most preferred life insurance company and majority of them prefer

government-owned lic for getting insured because of security. The other private life insurance companies are having less percentage of share and those who prefer private insurers are because of better customer services and high returns.

**TABLE 7: TYPE OF POLICY PREFERENCE**

Policy types	No. Of respondents	Percentage
Endowment	23	15.3
Term plan	15	10.0



Unit linked	47	31.3
Money back	56	37.3
Others	09	6.0
Total	150	100

**INTERPRETATION:** It is quite evident from the table no. 7 there are various types of life insurance policies with customized features and value additions catering to the needs of specific target segments. That a majority (38%) of the respondents preferred money back policy, followed by 31.3% of the respondents preferred unit linked plans and 15.3% preferred endowment plans. Out of 150 samples drawn, only 10% of the respondents preferred term plans.

Thus it can depict that among many plans

available, the most preferred one among the mass is money back plan.

### **RANKING VARIOUS FACTORS RESPONSIBLE FOR INVESTMENT IN LIFE INSURANCE PRODUCTS**

During the study, it was found that the investors generally invested in life insurance due to the reasons like tax benefit, risk coverage, saving, return, insurance services, premium charges, security. During the survey, the respondents were asked to rank these factors and the data obtained is presented in table no. 8.

**TABLE 8**

Factors responsible for investment in life insurance						
Ranking factors	No. Of respondents					Total
	1	2	3	4	5	150
Tax benefit	100	36	5	9	0	150
Risk coverage & saving	18	42	36	33	21	150

Security with high return	15	9	39	33	54	150
Insurance	3	18	21	44	64	150

Services						
Premium Charges	12	39	48	27	24	150

now, for analyzing the various factors responsible for investment in mutual funds, ranking is done on the basis of weighted scores (table 7). Scoring is done as per the following scale: rank 1 – 5 weights,

Rank 2 – 4 weights, rank 3 – 3 weights, rank 4 – 2 weights and rank 5 – 1 weights

**TABLE 9**

Ranking of various factors			
Factors	Weighted score	Mean value	Rank
Tax benefit	695	4.63	1
Risk coverage & saving	453	3.02	2
Security with high return	348	2.32	4
Insurance services	302	2.01	5
Premium charges	438	2.92	3

**INTERPRETATION:** it is revealed from the table no. 10 and table no. 11, which among the surveyed people, majority of the respondents invest in life insurance for tax benefit, followed by the risk coverage & saving, premium charges, security with high return and insurance services can be ranked as 1<sup>st</sup>, 2<sup>nd</sup>, 3<sup>rd</sup>, 4<sup>th</sup> and 5<sup>th</sup> respectively. Thus it can be depicted that tax benefit is the main concern of customers while making investment in insurance policy.

## FINDINGS

1. The consumer decision to purchase insurance product from different insurance companies can be affected by several factors like age, gender and income level. From the analysis, it is inferred that respondents belonging to the age group between 30 to 40 years (which contribute 52% to the total respondents) found to be more interested in buying a life insurance policy as compare to other age group.

2. Out of 150 samples drawn, a majority (54.6%) of policyholders have shown preference towards lic followed by sbi life insurance with (14.6%) among the private players. Therefore lic has the maximum no. Of policyholders and rank as 1<sup>st</sup> among other insurance companies, followed by sbi life (14.6%), icici prudential (10.6%), bajaj allianz (8.0%) and hdfc standard life with 6.6%.

3. The features of policy that attracted policyholders can be ranked as follows: company reputation, money back guarantee, risk coverage, low premium and easy access to agents as 1<sup>st</sup>, 2<sup>nd</sup>, 3<sup>rd</sup>, 4<sup>th</sup> and 5<sup>th</sup> respectively. Thus it can be inferred that goodwill of the company is the most influencing factor while policy buying decision.

4. It is found from the analysis that out of 150 respondents, majority (37.3%) respondents preferred money-back policy of lic. This is followed by the unit linked plan of private insurers (31.3%) and endowment plans (15.3%). Only 10% of the respondents have shown interest towards term plan. Hence in present days people are more interested in such policy which gives higher return along with the risk coverage benefit.

5. It is evident from the above study that most (54.6%) of the respondent's have opted for lic policies because of safety and rest of the respondent's opted for private players for higher returns. Among private insurers, sbi life insurance holds 14.6% market share, followed by the icici prudential and bajaj allianz with 14.6% and 8.0% respectively. The study reveals the fact that lic still holds the major share of the life insurance market.

6. A large no. Of the respondents (48%) said that they look for trusted name in a company for insurance, followed by good plans, friendly service and accessibility with 30%, 18% and 4% respectively.

## SUGGESTIONS

In present competitive world, customer satisfaction has become an important aspect to retain the customers, not only to grow but also to survive. Customer service is the critical success factor and private insurers through their best services would be able to reposition and differentiate itself from lic.

1. Private insurers should emphasis more on advertising and building brand awareness through different modes of communication. This

will help in spreading insurance awareness among the common man.

2 To achieve greater insurance penetration, the healthier competition has to be intensified by both the sectors and they should come up with new innovative products to offer greater variety or choice to the customers and also make improvement in the quality of services and sell products through appropriate distribution channel to win-win situation for both the parties.

## CONCLUSION

Life insurance is an important form of insurance and essential for every individual. Life insurance penetration in india is very low as compare to developed nation where almost all the lives are covered and stage of saturation has been reached. Customers are the real pillar of the success of life insurance business and thus its important for insurers to keep their policyholders satisfied and retained as long as possible and also get new business out of it by offering need based innovative products. There are many factors which affect customers investment decision in life insurance and from the study it has been concluded that demographic factors of the people play a major and pivotal role in deciding the purchase of life insurance policies.

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