To Study the Investors' Behavior towards Life Insurance Products

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Abstract:
Life insurance basically is a tool against protection of life or against any unforeseen event or death of individuals. It provides financial protection against such risks. The purpose of investments in life insurance for every individual might differ. At present there are 23 private life insurance companies and one public life insurance company. This large number of life insurance companies and having wide range of products confuse the investors as to which product and of which company to purchase. So marketers are interested to know the investment pattern of life insurance investors in order to form their marketing strategies. The present paper is an attempt to know the behavior of individual with related to life insurance and also to know the problems faced by them. The study revealed that Insurance advisor is the main influencer in investment decision of life insurance investors and they depend largely on the insurance advisor.

Keywords: *Life Insurance, Investment Decision, Insurance Advisor, Private Insurance Company, Life Insurance Corporation of India (LIC)*

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1. Introduction

Investors' behavior is the study of how individuals make decision to spend their available resources (time, money and efforts) on investment related items. It helps the marketers to understand what, why, where, when and how an investor behaves with respect to products and services. Knowing answer to this question let marketers to design their marketing strategies accordingly.

Today the Indian insurance sector has transformed into a buyer's market, where the investor has the choice to select from a variety of products, services and the service providers. Generally, the investors do not evaluate all possible product attributes while making a choice. Their preference id guided by a set of "Key attribute" attached to the insurance scheme. And tracking these features for life insurance products is the fundamental objective of the study.

The economies reforms initiated in the early 90s paved the way for the growth and opening up of the financial sector, which led to a sustained period of economic growth. The insurance industry was opened up for private players in 2000 and has seen tremendous growth over the past decade with the entry of global insurance majors.

The insurance sector plays a critical role in a country's economic development. It acts as a mobilizer of savings, a financial intermediary, a promoter of investment activities, a stabilizer of financial markets and risk manager. The life insurance sector plays an important role in providing risk cover, investment and tax planning for individuals.

2. Evolution of the Insurance Industry In India

Indian industry in India has come a long way since the time when businesses were tightly regulated and concentrated in the hands of few public sector insurers. The beginning of a new era of insurance development has seen the entry of international insurers, the proliferation of innovative products and distribution channels and rising of supervisory standards.

The growing demand for insurance around the world continues to have a positive effect on the insurance industry across all economies. India, being one of the fastest-growing economies, exhibited a significant increase in its GDP and an even larger increase in its GDP per capita and disposable income. Increasing disposable income, coupled with the high potential demand for insurance offerings, has opened many doors for both domestic and foreign insurers. The following table briefly depicts the evolution of the insurance sector in India.

Exhibit: 1 The Chronological Evolution of the Insurance Industry.

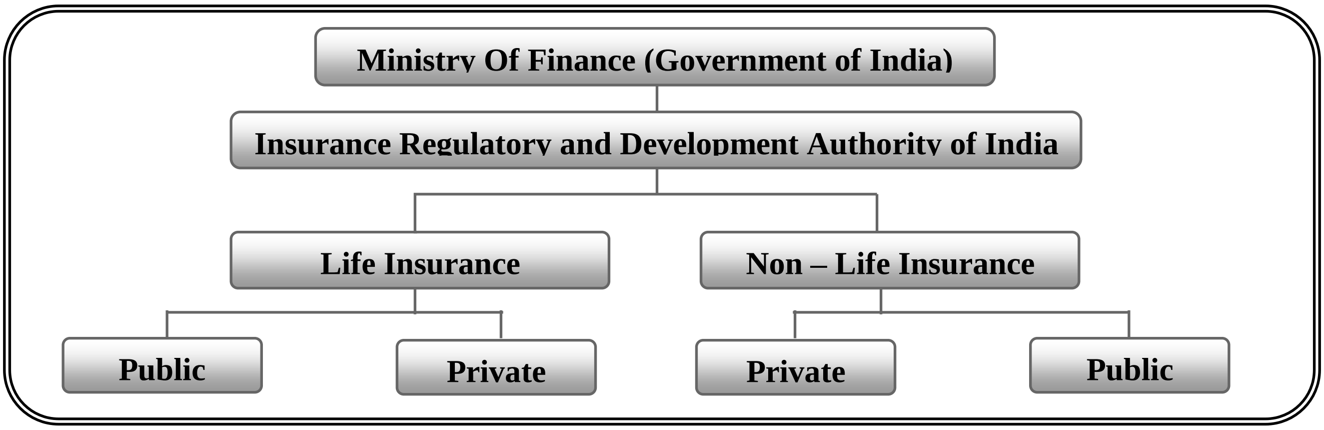
Year	Occurrence of Events in Indian Insurance Industry
1818	Oriental Life Insurance Co. was established in Calcutta.
1870	The first insurance company, Bombay Mutual life Insurance was formed.
1907	The Indian Mercantile Insurance Limited was formed.
1912	Life Insurance Companies Act and the Pension Fund Act of 1912. Beginning of formal insurance regulations.
1928	The Indian Insurance Act was passed to collect statistical data on both life and non-life.
1938	The Insurance Act of 1938 was passed; with strict state supervision to control frauds.
1956	The Central Government took over 245 Indian and foreign life insurers as well as provident societies and nationalized these entities. The LIC Act of 1956 was passed.
1957	The code of conduct by the General Insurance Council to ensure fair conduct and ethical business practices was framed.
1972	The General Insurance Business (Nationalization) Act was passed.
1991	Beginning of Economic Liberalization.
1993	The Malhotra Committee was set up to complement the reforms initiated in the financial sector.
1994	De-tariffication of aviation, liability, personal accidents and health and marine cargo products.

1999	The Insurance Regulatory and Development Authority (IRDA) bill was passed in the parliament.
2000	IRDA was incorporated as the statutory body to regulate and register private sector insurance companies. General Insurance Corporation (GIC), along with its four Subsidiaries, i.e., National Insurance Company Ltd., Oriental Insurance Company Ltd., New India Assurance Company Ltd. And United India Assurance Company Ltd., was made India's national reinsurer.
2005	De-tariffication of marine hull.
2006	Relaxation of foreign equity norms, thus facilitating the entry of new players.
2007	De-tariffication of all non-life insurance products except the auto third-party liability segment.

Source: *Indian Insurance Sector, September 2010, EYIN1009 – 102, through WWW.ey.com/India.*

In India the Ministry of Finance is responsible for enacting and implementing legislation for the insurance sector with the Insurance Regulatory and Development Authority (IRDA) entitled with the regulatory and development role. The Government also owns the majority share in some major companies in both life and non-life insurance segments. The figure 2.1 depicts the structure of the insurance industry in India.

Figure: 1 Indian Insurance Industry Structure



Source: *IRDA through website; www.irdaindia.org*

Both the life and non-life insurance sectors in India, which were nationalized in the 1950s and 1960s, respectively, were liberalized in the 1990s. Since the formation of IRDA and the opening up of the insurance sector to private players in 2000, the Indian insurance sector has witnessed rapid growth.

3. Literature Review

Saha S. and Dey M., (2011) study revealed that, consumer prefers safety first, then followed by good returns, liquidity, flexibility and tax benefit as features for investing in mutual funds. Investors gained awareness about mutual funds mostly through reference group followed by newspapers, financial magazines, televisions, brokers.

Raghunathan P. N. (2010) carried out study to know who influences the investors in their mutual fund investment decisions. The study also aimed to know the relationship between factors like level of knowledge and family income with reason for investment. It showed that there was significant relationship between investor's level of knowledge and reason for investment, family income and reason for investment. It also showed significant relationship between investor's educational qualification & level of knowledge about mutual fund. Brokers & colleagues were the important influencers of investment decision. Most investors considered 'fund performance' as important criteria for choice of funds.

Sultana S. T. (2010) studied the profile of investors and also their characteristics in order to understand their preference with respect to their investments. The study also attempts to know the risk tolerance level of investors. The study revealed that most of the investors preferred investment in fixed income avenues like PPF, Bonds & Banks FD followed by Equities & Mutual Fund. It was seen that there was no relation between gender & risk tolerance level of investors.

Singh D. (2011) conducted the study to determine the important factors influencing the customers for selecting an insurance company. The study was carried out to identify the weak areas which need improvement in order t enhance the quality of services in Insurance companies. The study revealed that product features, accessibility, low premiums, advertising, proper redressal of complaints & better claim settlement are factors that drastically influence the choice of a company. The weak areas which need improvement were agent's knowledge & their ethical behavior, low accessibility of private insurance companies & claim settlement system.

Khurana S. & Singh S.P. (2011) carried out a study to identify the factors that influence the choice of credit cards and also to know the customer satisfaction factors & consumer behavior regarding credit card. The result showed that the choice of credit card depends upon income, gender & profession of customers. Customer satisfaction depends upon income, frequency of usage in a month & amount of usage per month. The most important factor which influences the customer to use credit card is 'saving time' followed by 'group influence'.

Subhasis Ray, Ajay Pathak, (2007), worked on Strategizing Brand Positioning in the Context of Indian Insurance Industry. The study attempts to find out the influence of various brand building initiatives on brand recall and how this translates into market share. The study concluded, that for traditional life insurance products, people look for risk cover, investment opportunity and tax benefit the most. It also reveals that short tag line in Hindi have gained more popularity.

Cliff Mayfield, Grady Perdue & Kevin Wooten, (2008), examined several psychological antecedents to both short-term and long-term investment intentions, with specific focus on the big five personality taxonomy. The results indicated that individuals who are more extraverted intend to engage in short-term investing, while those who are higher in risk aversion avoid this activity.

Dhiraj Jain & Ms. Ruhika Kothari, (2012), attempted to identify the awareness, preferences, problems and attitude of investors towards various deposit schemes offered by the post office. The study reveals that demographic factors have no significant influence over the opinion towards post Office Deposits Schemes except monthly income and educational qualification.

D. Kandavel, (2011), presented study looking at the perception level of the retail investors towards investment in mutual funds. The small investor purchase behavior does not have a high level of coherence due to the influence of different purchase factors. The study reveals that the buying intent of a mutual fund product by small investor can be due to multiple reasons depending upon customer risk return trade off.

Sanjay Kanti Das, (2012), made an effort to study the investment habits and preferred investment avenues of the household. This study examines the investment attitude, their preferences & knowledge about capital market institutions and instruments. This study also reveals that in most cases investors across all categories found them to be safer in taking up the insurance policies.

Anna A. Merikas, Andreas G. Merikas, George S. Vozikis, Dev Prasad, undertook an empirical survey of the factors, which mostly influence individual investor behavior in the Greek Stock Exchange. The results revealed from 150 respondents, that there seems to be a certain degree of correlation between the factors that behavioral finance theory and previous empirical evidence identify as the influencing factors for the average equity investors, and the individual behavior of active investors in the Athens Stock Exchange.

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.

4. Research Methodology

Here the research design is descriptive in nature. Primary as well as secondary data were used for the study. Primary data are collected for the first time and is original in nature. Primary data was collected by adopting a survey method and questionnaire was used as a tool. A structured questionnaire was designed consists of multiple choice, close ended questions having likert scale in which scale 1 stands for lowest important to 5 for higher importance. The data were classified, tabulated and analyzed using Weighted Average as statistical tool for the purpose to interpret meaning of quantitative data. Simple random technique is used to select the sample and sample element or the respondents are investors (policyholders) in life insurance companies. The sample size of 200 respondents was taken from Mehsana city of North Gujarat. The research was carried from Aug - October 2012.

5. Objectives of the Study

The study was carried out with the following objectives:

- To investigate the investors' objectives of investing in life insurance.
- To identify the insurance policies preferred by an individual.
- To know the factors influencing investors' decision in life insurance.
- To study the problems faced by investors with life insurance investment.

6. Data Analysis and Interpretation

Table: 1 Investment in various Avenues. (1- Least to 5-Most)

Various Avenues	Scale					Weighted Average (WA)
	1	2	3	4	5	
Bank Deposits	8	12	22	70	88	4.09
Life Insurance	18	20	30	60	72	3.74
Public Provident Fund	56	42	34	30	38	2.76
Shares	54	56	34	36	20	2.56
National Saving Certificate (NSC)	116	22	30	18	14	1.96
Post Office Savings	124	30	26	8	12	1.77
Debentures	122	38	18	14	8	1.74

Source: *Primary Source*

6.1 Interpretation

The above table shows that among the various avenues taken for the study, in investors prefers bank deposits with a WA of 4.09 followed by Life insurance with WA of 3.74. It also reveals that the least preferred avenue to park their investments are NSC, Post Office Saving and Debenture with the WA of 1.96, 1.77 and 1.74 respectively.

Table: 2 Purposes for Investment in Life Insurance. (1- Least to 5-Most)

Purpose	Scale					Weighted Average (WA)
	1	2	3	4	5	
Risk Coverage	8	11	23	75	83	4.07
Tax Benefits	11	13	34	65	77	3.92
Retirement Planning	13	20	31	65	71	3.81
Children’s Education	21	21	32	59	67	3.65
Investment	61	36	44	33	26	2.64

Source: *Primary Source*

6.2 Interpretation

The above table shows that most of the investors in life insurance invest to satisfy the purpose of Risk Coverage with the WA of 4.07 and Tax Benefits with the WA of 3.92. The Investment as a reason to investment in the insurance is least preferred with WA of 2.64. Retirement Planning and Children’s Education with the WA of 3.81 and 3.65, respectively, are moderately preferred as a purpose of investment in insurance.

Table: 3 Preferences for Types of Policy in Life Insurance. (1- Least to 5-Most)

Type of Policy	Scale					Weighted Average (WA)
	1	2	3	4	5	
Traditional Plans	20	26	27	36	91	3.76
Unit Linked Investment Plans (ULIPs)	116	22	30	18	14	1.96
Both	24	30	26	58	62	3.52

Source: *Primary Source*

6.3 Interpretation

The above table represents the investor’s preference for investment in types of life insurance policy. It shows that majority of the investors prefers investment in traditional plans with the WA of 3.76, where the company manage the funds on behalf of the investors. On the other hand in ULIP, the individual investors have an option to select the type of fund. The ULIPs are least preferred with the WA of 1.96. Many of the respondents are also in favor of both, the traditional plans and the ULIPs as a preference for investment in insurance with the WA of 3.52.

Table: 4 Preference of Type of Plan in Life Insurance. (1- Least to 5-Most)

Type of Plan	Scale					Weighted Average (WA)
	1	2	3	4	5	
Endowment Plan	16	14	48	50	72	3.74
Term Plan	18	48	42	44	48	3.28
Pension Plan	60	66	34	22	18	2.36
Children's Plan	74	48	36	20	22	2.34

***Source**: Primary Source*

6.4 Interpretation

The above table shows that, the endowment plans get the first priority with WA of 3.74. In endowment plans the investor enjoys both the benefits, one in the event of death during the plan and benefit of maturity (if he/she out live the plan). The term plan gets the second priority with the WA of 3.28 in which the investor's pure risk is covered during the plan. The pension plans and children's plans are least preferred with the WA of 2.36 and 2.34 respectively.

Table: 5 Criteria for section of company. (1- Least to 5-Most)

Criteria for Selection	Scale					Weighted Average (WA)
	1	2	3	4	5	
Relationship with Advisor	8	12	22	68	90	4.10
Company's Image	6	15	47	38	94	4.00
Advisor's Knowledge	11	23	37	38	91	3.88
Reference by Friends	38	47	68	14	33	2.79
Company's Performance	40	76	54	12	18	2.46
Advertisement	92	28	37	29	14	2.23

***Source**: Primary Source*

6.5 Interpretation

The above results reveal that, amongst the criteria with ultimately influence the investor for the selection of company, Relationship with Advisor is given the first preference with the WA of 4.10 followed by company's image with the WA of 4.00. According to the respondents, advisor's knowledge and friend's referral moderately influence with the WA of 3.88 and 2.79, respectively. On the other hand, advertisement is having least influence on the respondent for the selection of company with the WA of 2.23.

Table: 6 Problems faced by the Investors. (1- Least to 5-Most)

Problems Faced by Investors	Scale					Weighted Average (WA)
	1	2	3	4	5	
Misselling by Advisors	7	9	17	69	98	4.21
Settlements	9	23	22	67	79	3.92
Hidden Charges	11	13	29	81	66	3.89
Convenience	26	32	31	52	59	3.43
Remainders	66	49	39	33	13	2.39

Source: Primary Source

6.6 Interpretation

According to respondent the most and major problem which is being faced by the most of them is misspelling of the insurance product by advisors or agents. This problem reflects the WA of 4.21 among the respondents. Settlements and hidden chargers charged by the insurance companies are some other problems which are being faced by the investors with the WA of 3.92

and 3.89. Finally the problems related to convenience and remainders are least with the WA of 3.43 and 2.39 respectively.

7. Findings

- Among the various investments avenues, investment in life insurance is given second priority after bank deposits. So, people do understand the importance of financial assets and its importance in financial management within and for dependents in the family.
- An individual invest in life insurance mainly for the purpose of risk coverage and tax benefits followed by retirement planning and children's education. Investment in life insurance is not looked much as an investment tool.
- Traditional plans are preferred than ULIPs. Because in traditional plans the investment in various fund is done by the company on behalf of the investors and carry moderate risk as compared to ULIPs having high risk and uncertainty in returns.
- Endowment plans are more preferred due to its dual benefits; death benefits and maturity value followed by term because of high risk coverage with small premium.
- Relationship with an agent advisor plays major important role in the investment decision making of an investors followed by company's image and advisor's knowledge. The company's performance and the advertisements least influence the investors in their decision making.
- The major problem which is being faced by the investor is misspelling of products by the advisors. They do not show transparency during the explanations of policy. Agent advisors lack the ethical behavior on their part and misguide the investor to satisfy their personal objective.

8. Suggestions

- Insurance should not be looked as an investment avenue like other financial instruments. Here the profits of the fund are distributed to the policy holders after deducting the expenses (in form of bonus). So the returns are moderate as compared to ULIPs with high risk and high returns.
- Investor should not depend more on advisor for purchasing policy. They should compare the plans of various companies before taking any decision. They must go through the terms and condition, charges, disclaimers etc. because insurance is a matter of solicitation.
- Insurance companies should train their advisors in terms of ethical behavior and must make sure that the guidelines are being followed by the advisors as prescribed by IRDA.

9. Limitations

- The study was carried out in Mehsana city of north Gujarat. So the result may very with change in the geographical region, since insurance consumers differs in preference, culture and demographics in various parts of the country.
- The sample size of 200 may also be error-prone. And the limitations of sampling techniques itself.
- Limitation of statistical tools which was used for the interpretation of data.

10. Conclusions

- Life insurance is basically a protection against the risk. The risk includes physical or mental health or death. A family may suffer after the demise of the individual who actually generate the income for the family.

- In a life cycle of a person there exist several stages, so an individual must focus on insurance and buy the plan according to the requirement in the different stages of life cycle.
- Investors are depending a lot on the advisor, so while buying policies they must take decision rationally and seriously. They should also demand for more information with respect to the product and should not depend on advisor's word of mouth.

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